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The Commonwealth of Massachusetts Auditor's
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DEPARTMENT OF THE AUDITOR

ANNUAL REPORT

FOR THE

FISCAL YEAR ENDING JUNE 30, 1955



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STATE AUDITOR

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DEPARTMENT OF THE AUDITOR

ANNUAL REPORT

For the

FISCAL YEAR ENDING JUNE 30, 1955

I have the honor to submit the Annual Report of the Department of the Auditor for the fiscal year, July 1, 1954 to June 30, 1955.

Section 12 of Chapter 11 of the General Laws defines the duties of the Department of the State Auditor.

"SECTION 12. The department of the state auditor shall annually make a careful audit of the accounts of all departments, offices, commissions, institutions and activities of the commonwealth, including those of the income tax division of the department of corporations and taxation, and for said purpose the authorized officers and employees of said department of the state auditor shall have access to such accounts at reasonable times and said department may require the production of books, documents and vouchers, except tax returns, relating to any matter within the scope of such audit. The accounts of the last named department shall be subject at any time to such examination as the governor and council or the general court may order. Said department shall comply with any written regulations, consistent with law, relative to its duties made by the governor and council. This section shall not apply to the accounts of state officers which the director of accounts of the department of corporations and taxation is required by law to examine. The department of the state auditor shall keep no books or records except records of audits made by it, and its annual report shall relate only to such audits."

All requirements of the law relating to the duties and functions of the State Auditor have been carefully complied with for the fiscal year ended June 30, 1955.

Personnel: As of June 30, 1955, the permanent Civil Service staff of this office included eight World War I veterans, seventeen World War II veterans and ten non-veterans.

The following promotions were made through competitive Civil Service examinations:

Miss Jeanne Jagello of Dorchester to Senior Clerk-Typist
Mr. Anthony Longo of East Boston to Semi-Senior Accountant
Mr. James T. O'Donnell of Arlington to Semi-Senior Accountant

The following permanent Junior Accountant appointments were made from Civil Service lists during the year:

Mr. Joseph Cheskin of Revere
Mr. Richard P. Connaughton of Hyde Park
Mr. Allan T. Mahoney of Lowell
Mr. John A. Piscopo of West Newton

Mr. James T. O'Donnell of Arlington and Mr. Leo Silk of Jamaica Plain transferred to the Budget Bureau of the Commission on Administration and Finance.

Mr. Sydney S. Kaplan transferred to the Legislative Research Council and Bureau.

Two special cash audits were required during the fiscal year:

Taunton State Hospital
Westborough State Hospital

New Audits: During the fiscal year, the first audit of the following agencies was completed:

Board of Educational Television
Hurricane Relief Board
Institute for Juvenile Guidance
Legislative Research Council and Bureau
Lemuel Shattuck Hospital

General: Individual copies of audit reports for all State activities have been submitted to His Excellency the Governor, the Lieutenant-Governor, the President of the Senate, the Speaker of the House, the Chairman of the Commission on Administration and Finance, the Comptroller and the State Librarian. Copies also have been forwarded to the administrative head of each institution or agency concerned, the chaplains, medical boards and trustees of the institutions, and the commissioner of each department.

Summary of Audits Completed: The following listed audits of State departments and institutions have been made since my last report to the legislature:

SCHEDULE OF REGULAR AUDITS COMPLETED		FISCAL YEAR 1954 - 1955	
Department or Institution	From	To	
Governor and Council:			
Aeronautics Commission	Dec. 21, 1953	Feb. 10, 1955	
Alcoholic Beverages Control Commission	May 5, 1954	Mar. 28, 1955	
Armory Commission	Jan. 4, 1954	Nov. 1, 1954	
Art Commission for the Commonwealth	Sept. 29, 1953	Aug. 23, 1954	
Ballot Law Commission	Oct. 2, 1953	Aug. 24, 1954	
Boston Arena Authority	Feb. 28, 1954	Jan. 17, 1955	
Civil Defense Agency	Nov. 10, 1953	Oct. 25, 1954	
Commission Against Discrimination	Oct. 14, 1953	Sept. 17, 1954	
Commission on Administration and Finance:			
General Department	July 1, 1953	June 30, 1954	
Division of Building Construction	Oct. 29, 1953	Oct. 18, 1954	
Commission on Alcoholism	Oct. 5, 1953	Sept. 7, 1954	
Commission on Uniform State Laws	Oct. 2, 1953	Aug. 24, 1954	
Commissioner of Veterans Services	Dec. 16, 1953	Apr. 12, 1955	
Commissioners to Revise, Recodify, Consolidate and Arrange the General Laws	Oct. 15, 1953	May 5, 1954	
Hurricane Relief Board	Aug. 31, 1954	May 23, 1955	
Mount Greylock Tramway Authority	May 24, 1954	May 26, 1955	
Military Division of the Executive Department	Jan. 4, 1954	Nov. 1, 1954	
Military Reservation Commission	Jan. 4, 1954	Nov. 1, 1954	
Milk Regulation Board	Nov. 3, 1953	Sept. 13, 1954	
Outdoor Advertising Authority	Nov. 30, 1953	Oct. 25, 1954	
Port of Boston Commission	Sept. 29, 1953	Aug. 16, 1954	
Public Bequest Commission	Sept. 29, 1953	Oct. 25, 1954	
Soldiers' Home in Chelsea	July 9, 1953	July 26, 1954	
Soldiers' Home in Holyoke	Mar. 30, 1954	Dec. 1, 1954	
State Housing Rent Co-Ordinator	May 27, 1954	Apr. 18, 1955	
State Library	Sept. 30, 1953	Aug. 26, 1954	
State Racing Commission	Nov. 19, 1953	Nov. 18, 1954	
State Superintendent of Buildings	Sept. 30, 1953	Nov. 15, 1954	
Veterans' Bonus Commission	Oct. 7, 1953	Sept. 28, 1954	
Secretary of the Commonwealth:			
General Department	Aug. 3, 1953	July 19, 1954	
Commission on Interstate Co-operation	Sept. 28, 1953	Oct. 26, 1954	
Treasurer and Receiver-General:			
General Department	Feb. 4, 1954	Apr. 22, 1955	
Emergency Finance Board	Feb. 11, 1954	Nov. 22, 1954	
State Board of Retirement	Jan. 1, 1954	Dec. 31, 1954	
Attorney General	Oct. 21, 1953	Nov. 29, 1954	
Department of Agriculture:			
General Department	Nov. 3, 1953	Sept. 13, 1954	
Division of Livestock Disease Control	Nov. 3, 1953	Sept. 13, 1954	
Milk Control Commission	Sept. 21, 1953	Aug. 16, 1954	
Department of Banking and Insurance:			
Division of Banks	Oct. 6, 1953	Oct. 13, 1954	
Division of Insurance	May 18, 1954	Jan. 10, 1955	
Division of Savings Bank Life Insurance	Jan. 7, 1954	Feb. 7, 1955	
Supervisor of Loan Agencies	Oct. 13, 1953	Aug. 25, 1954	
Department of Civil Service and Registration:			
General Department	Aug. 31, 1953	Aug. 23, 1954	
Architects, Board of Registration of	Sept. 28, 1953	Dec. 28, 1954	
Barbers, Board of	Oct. 15, 1953	Mar. 15, 1955	
Certified Public Accountants, Board of			
Registration of	Nov. 25, 1953	Dec. 29, 1954	
Chiropody, Board of Registration in	Nov. 24, 1953	Sept. 23, 1954	
Dental Examiners, Board of Registration of	Oct. 5, 1953	Dec. 17, 1954	
Electricians, State Examiners of	Oct. 22, 1953	Jan. 27, 1955	
Embalming and Funeral Directing,			
Board of Registration in	Oct. 6, 1953	Feb. 18, 1955	
Hairdressers, Board of Registration of	Sept. 14, 1953	Nov. 18, 1954	
Medicine, Board of Registration in	Sept. 8, 1953	Oct. 8, 1954	
Nursing, Board of Registration in	Sept. 8, 1953	Mar. 28, 1955	

Department or Institution	From	To
Department of Civil Service and Registration (Continued):		
Optometry, Board of Registration in	Nov. 23, 1953	Sept. 30, 1954
Pharmacy, Board of Registration in	Oct. 29, 1953	Sept. 20, 1954
Plumbers, Board of State Examiners of	Nov. 19, 1953	Nov. 3, 1954
Professional Engineers and Land Surveyors, Board of Registration of	Sept. 28, 1953	Dec. 20, 1954
Veterinary Medicine, Board of Registration in	Sept. 30, 1953	Sept. 20, 1954
Department of Commerce	June 9, 1954	June 8, 1955
Department of Corporations and Taxation:		
General Department	July 1, 1953	July 1, 1954
Appellate Tax Board	Mar. 16, 1954	Dec. 27, 1954
Bureau of Accounts	Apr. 27, 1954	Mar. 31, 1955
Department of Correction:		
General Department	Nov. 4, 1953	Dec. 6, 1954
Reformatory at Concord	Apr. 12, 1954	May 2, 1955
Reformatory for Women	May 17, 1954	May 12, 1955
State Farm at Bridgewater	July 6, 1953	July 7, 1954
State Prison	Apr. 23, 1954	Apr. 25, 1955
State Prison Colony	May 5, 1954	May 4, 1955
DEPARTMENT OF EDUCATION:		
General Department	Nov. 17, 1953	Oct. 21, 1954
Board of Educational Television	Inception	Nov. 30, 1954
Bradford Durfee Technical Institute	Feb. 8, 1954	Apr. 6, 1955
Division of the Blind	Mar. 15, 1954	Dec. 13, 1954
Division of Library Extension	Nov. 17, 1953	Nov. 8, 1954
Division of Immigration and Americanization	Nov. 17, 1953	Nov. 10, 1954
Lowell Technological Institute	Aug. 31, 1953	Aug. 16, 1954
Lowell Technological Institute Research Foundation	Aug. 31, 1953	Sept. 17, 1954
Maritime Academy	May 4, 1954	May 3, 1955
New Bedford Institute of Textiles and Technology	Mar. 8, 1954	Feb. 25, 1955
School Buildings Assistance Commission	June 9, 1954	Mar. 22, 1955
School Lunch Programs, Office of	Nov. 17, 1953	Nov. 20, 1954
School of Art	Apr. 7, 1954	Jan. 3, 1955
State Teachers College at Boston	Apr. 7, 1954	Jan. 6, 1955
State Teachers College at Bridgewater	Oct. 19, 1953	Jan. 20, 1955
State Teachers College at Fitchburg	May 24, 1953	Apr. 15, 1955
State Teachers College at Framingham	May 25, 1954	June 2, 1955
State Teachers College at Lowell	Feb. 23, 1954	Jan. 27, 1955
State Teachers College at North Adams	Mar. 19, 1954	Apr. 6, 1955
State Teachers College at Salem	Jan. 26, 1954	Dec. 22, 1954
State Teachers College at Westfield	Jan. 13, 1954	Dec. 30, 1954
State Teachers College at Worcester	Mar. 19, 1954	Feb. 24, 1955
Teachers Retirement Board	Jan. 1, 1954	Dec. 31, 1954
University of Massachusetts at Amherst	July 21, 1953	Aug. 23, 1954
Department of Labor and Industries:		
General Department	May 17, 1954	Jan. 3, 1955
Division of Employment Security	May 3, 1954	Apr. 20, 1955
Division of Industrial Accidents	Feb. 23, 1954	Nov. 22, 1954
Labor Relations Commission	Nov. 5, 1953	Nov. 9, 1954
Legislature:		
Legislative Research Council and Bureau	July 1, 1954	May 31, 1955
Sergeant-at-Arms	Dec. 9, 1953	Nov. 15, 1954
Department of Mental Health:		
General Department	Sept. 8, 1953	Sept. 7, 1954
Belchertown State School	Dec. 11, 1953	Jan. 11, 1955
Boston Psychopathic Hospital	Dec. 7, 1953	Sept. 21, 1954
Boston State Hospital	Mar. 15, 1954	Dec. 8, 1954
Danvers State Hospital	Nov. 30, 1953	Feb. 7, 1955
Foxborough State Hospital	Nov. 2, 1953	Nov. 15, 1954
Gardner State Hospital	Aug. 3, 1953	Oct. 1, 1954
Grafton State Hospital	Nov. 2, 1953	Jan. 12, 1955
Medfield State Hospital	May 10, 1954	Apr. 20, 1955
Metropolitan State Hospital	Mar. 8, 1954	Dec. 6, 1954
Monson State Hospital	Sept. 22, 1953	Feb. 17, 1955
Myles Standish State School	Nov. 16, 1953	May 16, 1955

Department or Institution	From	To
Department of Mental Health (Continued):		
Northampton State Hospital	July 20, 1953	July 8, 1954
Taunton State Hospital	Dec. 28, 1953	Nov. 23, 1954
Special Cash Audit		May 19, 1955
Walter E. Fernald State School	Apr. 12, 1954	Jan. 10, 1955
Westborough State Hospital	Feb. 1, 1954	Nov. 22, 1954
Special Cash Audit		Mar. 18, 1955
Worcester State Hospital	Dec. 7, 1953	Aug. 2, 1954
Wrentham State School	Apr. 27, 1954	Apr. 4, 1955
Metropolitan District Commission	Jan. 4, 1954	Sept. 7, 1954
Department of Natural Resources:		
General Department	Mar. 15, 1954	Feb. 7, 1955
Fisheries and Game, Division of	Mar. 15, 1954	Sept. 15, 1954
Department of Public Health:		
General Department	Oct. 19, 1953	Aug. 20, 1954
Lakeville State Sanatorium	Sept. 16, 1953	Sept. 20, 1954
Lemuel Shattuck Hospital	July 1, 1954	Sept. 20, 1954
North Reading State Sanatorium	Oct. 1, 1953	Oct. 18, 1954
Pondville State Hospital	May 3, 1954	May 9, 1955
Rutland State Sanatorium	Apr. 1, 1954	June 1, 1955
Westfield State Sanatorium	Feb. 1, 1954	Mar. 25, 1955
Department of Public Safety	May 12, 1954	May 11, 1955
Department of Public Utilities	May 26, 1954	June 1, 1955
Department of Public Welfare:		
General Department	Mar. 29, 1954	May 2, 1955
Massachusetts Hospital School	June 1, 1954	Apr. 11, 1955
Tewksbury State Hospital and Infirmary	July 1, 1953	Oct. 18, 1954
Department of Public Works:		
General Department	Jan. 4, 1954	Jan. 5, 1955
Registry of Motor Vehicles	July 1, 1953	July 1, 1954
State Airport Management Board	Nov. 9, 1953	July 16, 1954
Supreme Judicial Court:		
Board of Bar Examiners	July 1, 1953	June 30, 1954
Clerk for the Commonwealth	Oct. 7, 1953	Sept. 15, 1954
Reporter of Decisions	Oct. 5, 1953	Sept. 15, 1954
State Board of Probation	Oct. 8, 1953	Sept. 20, 1954
Division of Youth Service:		
General Department	Jan. 4, 1954	Dec. 20, 1954
Industrial School for Boys	June 9, 1954	May 5, 1955
Industrial School for Girls	Apr. 26, 1954	Mar. 29, 1955
Institute for Juvenile Guidance	July 1, 1954	May 27, 1955
Lyman School for Boys	July 6, 1953	July 7, 1954
Detention Center	Jan. 20, 1954	Jan. 27, 1955

The principal comments, exceptions and recommendations included in the audit reports issued were as follows:

REGISTRY OF MOTOR VEHICLES

REPORT NO. 55-1

Refunds of Fees Account of Application for Licenses to Operate Motor Vehicles: At present applicants file applications, together with a fee of \$8.00 with the examiner at the examination point. This amount includes the examination fee of \$3.00 and a two year license fee of \$5.00. If the applicant passes the examination, he receives a temporary license and subsequently a permanent license is mailed to him. If he fails the examination, the \$5.00 representing the two years' license fee is refunded to him in currency by the examiner. The same arrangement applies in re-examinations excepting that the re-examination fee is \$1.50, therefore the deposit is \$6.50 rather than \$8.00. It is again recommended that the Comptroller's Bureau review the routine of handling these fees and provide a method that will eliminate the practice of these refunds being made by the examiners.

Over and Short Account: At present from the permanent advance of \$50,000.00 in the cashier's office, \$2,000.00 is set aside to clear overages and shortages in income at the main office and the several branch offices. On date of audit the fund consisted of the following:

Cash	\$ 703 80
Advance to Tellers for Change	375 00
Net Shortage	<u>921 00</u>
	<u>\$2,000 00</u>

However, it was noted that on July 23, 1954 the net shortage of \$1,327.47 on July 1, 1953 as shown in the previous audit report was cleared in accordance with the provisions of Item 2924-01 of Chapter 453 of the Acts of 1954.

Reconciliation of Cash at Branch Offices: It is understood that the rules and regulations provide that the manager of each branch office is to personally balance the cash twice a month and file a report of such cash reconciliation with the Chief Accountant. The reports of such cash reconciliations on file in the Chief Accountant's office were tabulated and it was found that the most reports filed by any branch was twelve for a year ended June 30, 1954 and that two branches had each filed only one report during the same period. It is suggested that the branch offices be required to comply with the rule.

Cashier's Office-Rebate and Refund Advance Fund: Previous audit reports have stated:

"It is suggested that the Comptroller's Bureau should be contacted relative to the installation of a cash book in which to record the receipts and disbursements of the Fund."

As the cash book has not been installed attention is again called to it.

Exchange of Plates: The previous audit report stated:

"It was noted that no fee is charged when one registration plate is exchanged for another plate. It is suggested that such exchanges of plates are in the same category as substitutions and should require payment of a fee."

As this suggestion has not been adopted, attention is again called to it.

File Room Missing Applications: The previous audit report stated:

"It was noted that many 1952 applications were missing from the files.

"It is suggested that better control be exercised over all registration applications on file. Any application taken from the files should be replaced by a requisition properly authorized dated, designating the person who removed the application and the location to which it was removed."

As the same condition existed in the files of the 1953 applications, attention is called to the foregoing suggestion.

Record of No Fees Charged: The previous audit report stated:

"It is suggested that a separate record be kept of all "no fee" items, including registrations, licenses, renewal licenses, etc. Possibly this could be accomplished by reserving a certain number of "Miscellaneous Cash Sheets" for the purpose."

As this suggestion has not been adopted, attention is again called to it.

Internal Check of Certain Fees: The previous audit report stated:

"It is understood that applications received and processed by the Mail Section and by the Express Section are not checked for correctness of fees by the Checking Section. It is suggested that all applications received be reviewed with this in mind."

It was noted the situation remains the same at date of this audit.

Validating Stamps on Applications: The previous audit report stated:

"Several of the semi-trailer fleet applications examined, as well as other types of applications, did not show the validating stamp of the Registry clerk or teller. It is suggested that each application should bear such identification."

It was noted that the same situation obtained during the period covered by this audit.

Industrial Accident Cases: It was noted that an employee who was injured on May 14, 1952, and whose services were terminated on July 13, 1953 has not received a ruling with regard to possible indefinite compensation.

It was also noted that another employee who was injured on December 22, 1953, had not yet received compensation to the date of audit. During the audit it was learned that a check was in process of issue at the Division of Industrial Accidents. It was suggested that this check upon receipt by this employee, be refunded since full payments were made to him on the pay roll of this agency.

Point System: The Point System was authorized by Chapter 570 of the Acts of 1953, Section 5 and became operative on January 1, 1954 with the assessing of points.

The records of the Registry of Motor Vehicles indicate that tabulation and points assessed from January 1, 1954 to June 30, 1954 were as follows:

Involvements Processed by Tabulating	69,081
Point Assessment Notices Mailed	4,736
Total Points Assessed	33,899
Average Point Assessment	7.1

The following shows the cost to the Commonwealth of the operations of this system for the six months period ended June 30, 1954:

Salaries	\$174,719 79	
Less:		
Amount applicable to Statistical Department before operation of Point System	33,820 36	\$140,899 43
Printing		23,177 64
Office Administrative Costs		3,958 15
Equipment		16,121 93
Rentals	\$17,838 72	
Less:		
Amount applicable to Statistical Department before operation of Point System July through December	2,435 03	15,403 69
Total Cost		<u>\$199,560 84</u>

DEPARTMENT OF CORPORATIONS AND TAXATION

GENERAL DEPARTMENT

REPORT NO. 55-2

Tax Distribution to Cities and Towns: Early in each calendar year the Commissioner of the Department of Corporations and Taxation is required to submit to each city and town of the Commonwealth an estimate of the amount that each can expect that year from distribution of revenue from income and corporation taxes.

This estimate is included on the so-called "Cherry Sheets" issued by the department. The revenue thus accrued is distributed between the Commonwealth and the cities and towns on the following basis:

- 1) Income Taxes - With the exception of \$2,500,000.00 retained by the Commonwealth as Public Service Tax receipts, the increases in tax rates authorized by Chapter 800 of the Acts of 1950, as extended and the cost of administration of the Income Tax Department, all funds received are distributed to the various cities and towns.
- 2) Corporation Taxes - This income is divided roughly - 1/6 to the Commonwealth, and 5/6 is distributed to the cities and towns.

A schedule of the Commissioner's estimates and payments to the various cities and towns for the past five years and the period December 1, 1953 to June 30, 1954 follows:

Fiscal Year Ending November 30, 1949

	<u>Income Tax</u>	<u>Business Corporation Tax</u>	<u>Total</u>
Commissioner's Estimates	\$29,040,919 00	\$26,000,000 00	\$55,040,919 00
Actual Payments to Cities and Towns	<u>39,919,078 07</u>	<u>42,841,163 65</u>	<u>82,760,241 72</u>
Underestimate	<u>\$10,878,159 07</u>	<u>\$16,841,163 65</u>	<u>\$27,719,322 72</u>
Percent of Payments to Estimate	<u>137.4%</u>	<u>164.7%</u>	<u>150.3%</u>

Fiscal Year Ending November 30, 1950

	<u>Income Tax</u>	<u>Business Corporation Tax</u>	<u>Total</u>
Commissioner's Estimates	\$35,000,000 00	\$37,000,000 00	\$72,000,000 00
Actual Payments to Cities and Towns	<u>31,995,153 71</u>	<u>26,860,351 31</u>	<u>58,855,505 02</u>
Overestimate	<u>\$3,004,846 29</u>	<u>\$10,139,648 69</u>	<u>\$13,144,494 98</u>
Percent of Payments to Estimate	<u>91.4%</u>	<u>72.5%</u>	<u>81.7%</u>

Fiscal Year Ending November 30, 1951

	<u>Income Tax</u>	<u>Business Corporation Tax</u>	<u>Total</u>
Commissioner's Estimates	\$30,002,012 52	\$25,000,000 00	\$55,002,012 52
Actual Payments to Cities and Towns	<u>39,006,858 81</u>	<u>29,139,648 69</u>	<u>68,146,507 50</u>
Underestimate	<u>\$9,004,846 29</u>	<u>\$4,139,648 69</u>	<u>\$13,144,494 98</u>
Percent of Payments to Estimate	<u>130.0%</u>	<u>116.5%</u>	<u>123.8%</u>

Fiscal Year Ending November 30, 1952

	<u>Income Tax</u>	<u>Business Corporation Tax</u>	<u>Total</u>
Commissioner's Estimates	\$30,000,000 00	\$25,000,000 00	\$55,000,000 00
Actual Payments to Cities and Towns	<u>36,710,679 02</u>	<u>41,273,037 15</u>	<u>77,983,716 17</u>
Underestimate	<u>\$6,710,679 02</u>	<u>\$16,273,037 15</u>	<u>\$22,983,716 17</u>
Percent of Payments to Estimate	<u>122.3%</u>	<u>165.1%</u>	<u>141.8%</u>

Fiscal Year Ending November 30, 1953

	<u>Income Tax</u>	<u>Business Corporation Tax</u>	<u>Total</u>
Commissioner's Estimates	\$33,000,000 00	\$33,000,000 00	\$66,000,000 00
Actual Payments to Cities and Towns	<u>39,815,068 88</u>	<u>32,500,000 00</u>	<u>72,315,068 00</u>
Underestimate	<u>\$6,815,068 88</u>	<u>(\$500,000 00)</u>	<u>\$6,315,068 88</u>
Percent of Payments to Estimate	<u>120.7%</u>	<u>98.5%</u>	<u>109.6%</u>

Period - December 1, 1953 to June 30, 1954

	<u>Income Tax</u>	<u>Business Corporation Tax</u>	<u>Total</u>
Commissioner's Estimates	<u>\$35,000,000 00</u>	<u>\$35,000,000 00</u>	<u>\$70,000,000 00</u>
Payments to Cities and Towns to June 30, 1954	\$33,008,318 30	\$31,006,291 88	\$64,014,610 18
Balance Not Distributed June 30, 1954	<u>3,672,294 83</u>	<u>562,310 94</u>	<u>4,234,605 77</u>
Total	<u>\$36,680,613 13</u>	<u>\$31,568,602 82</u>	<u>\$68,249,215 95</u>
Percent of Payments and Undistributed Balance to Estimate	<u>104.8%</u>	<u>90.2%</u>	<u>97.5%</u>

Income Tax Assessments: Prior to 1946 assessment warrants were prepared in the Assessing Section of the Income Tax Division and sent to the Collector's Office, together with the individual taxpayers' bills. The bills were entered on the ledger cards and then mailed by the Collector's Office. Beginning with the 1946 income tax year, the preparation of warrants in the Assessing Section was discontinued except for additional assessments on unpaid accounts, and the assessments were established in the Collector's Office (subject to verification) from the taxpayers' return coupons in those cases where the taxpayers enclosed full or partial payments with the tax return.

Under the present arrangement, the coupons are processed so that currency may be extracted, are sorted, and then sent to the nineteen ledger clerks, who list on warrants the amounts set up as assessments which are subject to late verification. These warrants are entered in so-called master books, and in subcontrol ledgers. In order to establish an approximate record of accounts receivable in the department financial report as of June 30, the income tax and corporation tax assessments are anticipated and estimated amounts are entered in the control ledgers. These figures are accordingly adjusted at the time of the certification of the total assessments of the business corporation excise taxes in September of each year. At the time of the establishment of the income tax assessment subject to final verification, on September 1 of each year, these taxes

are also properly adjusted.

Chapter 816 of the Acts of 1950 provided that income taxes and business corporation taxes would be payable in their entirety at the time of the filing of the tax returns, March 1 for income taxes and April 10 for corporation taxes. This chapter was, however, amended by Chapter 750 of the Acts of 1951 and Chapter 623 of the Acts of 1952 which provided that individual income tax returns become due and payable in full on April 15 for the tax years through 1953. Chapter 70 of the Acts of 1954 established April 15 as the date for filing of individual income tax returns.

In cases where income tax returns are received without remittances, the returns are segregated and sent to the assessing Division which subsequently and prior to June 15 sends assessment warrants on such cases to the Collector's Office, together with any additional assessments resulting from reviews of the respective tax returns.

It was understood that the reason for the change in the system was occasioned by the inability of the Assessing Section to get the assessment warrants and the taxpayers' bills to the Collector's Office by September 1, the date the bills were apparently required to be mailed.

However, regardless of the reasons, it is fundamental from the point of view of adequate internal control that the assessments should not be established in the same section where they will ultimately be collected, because under the present arrangement it is impossible to get a satisfactory independent verification of the assessments as a basis of audit.

Interest Paid and Received: To the present date interest was collected on overdue accounts at the rate of 6% per annum, and was paid on amounts refunded at the same rate. Inasmuch as the prevailing bank interest rate is substantially lower than this amount, it was suggested that steps be taken to reduce this rate to one more consistent with that which obtains in industry. With the present rates remaining in effect, it was conceivable that concerns might deliberately overpay their taxes in substantial sums knowing that at some later date they would receive proper refunds together with interest in amounts which could not be realized in ordinary investments.

In this connection attention is called to the fact that Chapter 269 of the Acts of 1954, which became effective on July 31, 1954 reduced the interest rate to 3% for individual income taxes. A copy of this statute follows:

"Chapter 62 of the General Laws is hereby amended by striking out section 43, as most recently amended by section 46 of chapter 654 of the acts of 1953, and inserting in place thereof the following section:--- Section 43. Any person who believes he has overpaid any tax imposed by this chapter may apply in writing to the state tax commission, hereinafter called the commission, on a form prescribed by it for an abatement of any such overpayment of tax at any time within three years from the last day for filing the return required by this chapter, or within one year after the date of such overpayment, whichever occurs later. If, after a hearing, or otherwise, the commission finds that the tax paid exceeds the amount due, it shall abate such excess. The state treasurer shall repay to the person assessed the amount of such abatement, with interest thereon at the rate of three per cent per annum from the time it was paid. The commission shall notify the applicant by registered mail of its decision upon the application for abatement."

Approved April 5, 1954

It will be noted, however, that the foregoing law has had no effect on the interest rate applicable to corporate taxes, and it remains at 6%.

During the current audit period several large abatements were made of corporate taxes. For purposes of illustration, the following examples are shown of individual amounts of the original taxes together with the respective interest abatements:

<u>Tax Year</u>	<u>Tax Abated</u>	<u>Interest</u>	<u>Total</u>
1944	\$11,311 92	\$6,072 62	\$17,384 54
1946	10,812 16	4,739 33	15,551 49
1947	13,214 57	4,609 68	17,824 25
1948	7,739 49	2,230 26	9,969 75
1951	13,888 95	1,732 50	15,621 45
1952	30,541 80	2,137 93	32,679 73

Abatements of Cigarette Excise Taxes: The commissioner has great discretionary powers in making abatements and refunds of cigarette excise taxes as provided by Section 6 of Chapter 64C of the General Laws:

"....An abatement or refund of the excise provided by this chapter may be made by the commissioner for such causes as the commissioner may deem expedient. The commissioner shall certify said amount to the comptroller and the state treasurer shall pay said amount without any appropriation therefor by the general court, out of the proceeds of such excise.."

Abatements are made to cover taxpayer's loss of excise through bad accounts, loss of excise through thefts, and for other costs incurred in the collection of the excise tax. Abatements are initiated at the request of the licensee through the medium of an "Application for Abatement". The amount of abatement generally is determined by the Division Director based on the amount of tax collections and conditions known about the licensee. All such abatements are then submitted for the approval of the commissioner before becoming official. For the year ended November 30, 1953 the total assessments of cigarette excise taxes was \$28,525,764.34 and the total abatements for the same period amounted to \$753,901.19, representing 2.64% of the tax assessments. Other New England states collect this excise through the stamp tax method, and allow a percentage of the face value of stamps sold to cover such taxpayers' losses and expenses. The amount of allowance varies in each state from 3 1/2% to 5%. All taxpayers within a state are allowed the same fixed rate.

Massachusetts does not employ the stamp tax method of collecting this tax. Instead, taxpayers are required to file monthly information reports which are accompanied by a payment for the tax on sales for the particular month. Abatements, however, are applied for by application of the licensee and may include a period of one or more years. This method has merit in that it is apparently less costly than the stamp tax method. There are, however, certain features that are open to criticism. The mere fact that an application for abatement may be denied altogether or that one licensee may be awarded a relatively larger abatement than another affords some idea of the control that the commissioner may exercise. An examination of the abatements awarded for the year ended November 30, 1953 indicated they ranged from .96% to 4.00% of the tax collections. Since the Bureau records do not list the exact losses suffered from bad accounts, thefts and other costs incurred by the taxpayers, it would appear that the wide discretionary power and control now exercised over these abatements by the Commission should be amended to insure equitable treatment for all cigarette excise taxpayers.

It was also noted that a delinquent cigarette excise taxpayer owing \$51,469.83 for unpaid cigarette excise taxes assessed in the 1951, 1952, and 1953 calendar years was allowed a tax abatement totaling \$31,205.30 under date of September 30, 1953, which reduced his indebtedness to \$20,264.53. This taxpayer made payments only of \$400.00 on this debt before going into bankruptcy in July 1954 still owing \$19,864.53. The Collection Bureau of the Income Tax Division thereupon took action on the surety bond posted by him and recovered \$9,775.00 from the bonding company thereby reducing the probable loss to the Bureau to \$10,089.53. This taxpayer's assessments for the period from 1945 to 1952 totaled \$1,039,262.84, and the abatement was approximately 3% of that amount.

It is obvious from the foregoing that this abatement was allowed to help alleviate his financial condition and not entirely as a reimbursement for bad debts, thefts and other costs. This item certainly indicates a need for closer co-ordination between the Cigarette Tax Bureau and the Collection Bureau.

Vending Machine Plates - Renewal Fees: Previous audit reports have commented on the impracticability of employing Vending Machine plates as a method of accounting control for Renewal Fees on Vending Machines in operation. The records of this Bureau indicate that 18,700 Vending Machine Plates had been issued from July 1, 1946 to June 30, 1953, of which 209 were returned and were still on hand July 1, 1954. Income from Renewal Fees for the 1953-54 fiscal year totaled \$17,084.00, which would indicate that no fees had been collected for the difference of 1,407 which might possibly have been lost, stolen or attached to machines sold or discarded. On the date of audit the Bureau had no official tabulation of such plates which were lost, stolen, etc. It is urged that the present accounting system be revised to include the maintaining of records for all plates issued, lost, stolen, destroyed by fire, sold, discarded, returned or reissued by the Bureau.

Alcoholic Beverages Excise: Two prior audit reports stated that on June 30, 1952, a balance of \$179,238.57 was due from a bankrupt manufacturer for alcoholic beverage excise taxes. On this account \$29,632.54 has since been applied and represented pay-

ments received from insurance companies which had provided bonds for that concern. The outstanding balance on June 30, 1954 was \$149,606.03. A portion of this amount may possibly be recovered by liquidation of the company's assets through bankruptcy proceedings. It is estimated, however, that the resulting loss of excise tax revenue from this account will be in excess of \$100,000.00.

Meals Excise Tax: The total amount due for meals excise taxes reflected on the records in the Collections Division was \$196,137.45 as of November 30, 1953. Of this amount \$127,560.75 was due from 36 taxpayers whose accounts indicate balances in excess of \$1,000.00 each. Some of the larger individual balances are listed below:

Taxpayer A	\$18,598 71	
Taxpayer B	17,496 97	
Taxpayer C	7,054 95	(In Bankruptcy)
Taxpayer D	5,693 76	
Taxpayer E	5,634 76	
Taxpayer F	5,481 51	(In Bankruptcy)
Taxpayer G	4,823 81	(In Bankruptcy)
Taxpayer H	4,572 56	

Section 6 of Chapter 64B of the General Laws permits the commissioner to require bonding of taxpayers:

".... Any taxpayer shall file with the commissioner, if so required by him at any time, a bond, running to the commonwealth, in a penal sum determined, and in a form approved, by the commissioner, executed by such taxpayer and by a surety company authorized to do business in the commonwealth as surety, and conditioned upon the payment of any excise or penalties due or which may become due from such taxpayer under this chapter."

Although such bonds have been required and furnished in the past by a few taxpayers there appears to be no taxpayers' bonds in effect at the present time.

It is suggested that the commissioner take advantage of this statute to indemnify the commonwealth against loss of revenue from this source, by requiring certain taxpayers to furnish such a bond.

An audit of the Meal Tax Abatements which totaled \$125,867.78 for the tax year ended November 30, 1953 indicated that more than \$100,000.00 represented write-offs of uncollectible accounts. This loss could possibly have been avoided if the meal taxes collected by the subject taxpayers have not been permitted to lose its identity by being intermingled with taxpayers' funds. It is suggested that whatever action is necessary be taken to enforce keeping the identity of these monies intact from the date of collection to the date of payment to the Bureau.

Registration Licenses to Serve Meals: It was noted that the registration license certificates issued by the Meals Tax Bureau are consecutively numbered by Bureau employees. This method does not conform to the Comptroller's Bureau directives which prescribe that all state licenses and certificates to be issued on serially numbered printed forms. The present arrangement does not provide an effective accounting control of licenses issued. It is suggested that the Bureau take the steps necessary to correct this situation.

Renewal of Registration Licenses: The records of the Bureau indicate that 34,827 registration licenses to serve meals have been issued to taxpayers since January 1, 1942. From information made available by the Bureau, it was determined that there were approximately 8,000 active taxpayers in this category during the fiscal year ended June 30, 1954. The income records further indicate that Excise Taxes collected on meals during the fiscal year ended June 30, 1954 was in excess of \$6,350,000.00.

To provide an effective control over the active taxpayers subject to the Old Age Excise Taxes collected monthly under Chapter 64-B of the General Laws it is recommended that the Registration Licenses to Serve Meals be renewed annually. This re-registration will not only inform the Bureau of their intent to serve meals but will also develop any changes in business activities such as the acquisition of a full liquor license or a tavern license, etc. These annual renewal applications could also bring to the Bureau's attention all changes of ownership, changes of address, and changes of business names.

Accounts with Attorney General for Collection: Because the Director of Taxes in this Department now has authority, in all types of taxes except Inheritance Taxes, to issue demands and warrants for the collection of taxes, the only types of taxes now with the Attorney General for collection are Inheritance Tax cases.

The records in the Office of the Collector showed that as of November 30, 1953 there were 235 Inheritance Tax cases totaling \$51,179.47 with the Attorney General for collection. These cases were not checked with the records in the Office of the Attorney General.

At present the accounts with the Attorney General for collection are not segregated but are included with the active accounts receivable. It is suggested that they be removed from the active section of the ledger and placed in a suspense section as required by instructions in the Comptroller's Accounting Manual on page 49.

An analysis of those cases shown by the records in the Collector's Office as being with the Attorney General follows:

<u>Year</u>	<u>Number of Cases</u>	<u>Balances</u>
1945	5	\$ 431 00
1944	9	1,034 45
1943	20	2,411 19
1942	17	2,224 97
1941	17	2,394 66
1940	13	3,797 79
1939	12	4,904 64
1938	11	1,805 37
1937	10	3,849 44
1936	6	1,511 10
1935	6	1,007 57
1934	8	1,050 95
1933	11	3,395 40
1932	11	2,351 51
1931	15	3,560 50
1930	13	5,547 23
1929	8	1,011 19
1928	3	1,948 70
1927	10	1,592 90
1926	9	1,240 82
1925	8	2,781 45
1924	5	411 47
1923	5	544 39
1921	2	50 23
1912	1	320 55
Total	<u>235</u>	<u>\$51,179 47</u>

Inheritance Taxes - Active Accounts Receivable: The active accounts receivable were not aged as of November 30, 1953, because the total of the individual accounts trial balance and the control account were not in agreement.

It is suggested that the accounts be reviewed and those on which the Department has exhausted all means of collection be referred to the Attorney General for disposition.

Remittances in payment of Inheritance Taxes are received in the first instance by the Inheritance Tax Division and later transmitted to the Collector's Office. Apparently, on occasion there is a considerable delay in forwarding the remittances because they are not sent to the Collector's Office until all computations have been completed. It is again suggested that some method be provided so that all remittances will be sent to the Collector's Office promptly.

Abatements - Miscellaneous Taxes: Attention again is called to the fact that in each of the last eight tax years, which have been audited, abatements of Miscellaneous Taxes totaled in excess of \$5,000,000.00. In this connection the following is shown:

<u>Twelve Months Ended</u>	<u>Assessments</u>	<u>Abatements</u>	<u>Per Cent</u>
November 30, 1945	\$ 97,685,257 80	\$ 5,571,129 81	5.7
1946	135,261,675 82	6,495,446 50	4.7
1947	140,326,744 14	5,077,973 03	3.6
1948	169,050,753 77	6,407,324 23	3.8
1949	172,239,096 62	9,907,379 11	5.8
1950	176,692,273 68	10,576,836 40	5.9

November 30, 1951	\$199,619,208 49	\$ 7,693,067 75	3.9
1952	220,123,147 76	5,607,924 45	2.5
1953	220,912,493 06	7,307,335 21	3.3

Because of the fact that statutes specifically preclude any examination of the individual abatement applications, the totals in the foregoing statement have been accepted without verification for this purpose.

It is understood that these abatements have been allowed through several channels, e.g., the Appellate Tax Board, the various courts, the Commissioner of Corporation and Taxation and/or at the suggestion of the Directors of any one of the several divisions within the Department.

It is also believed that a large percentage of these items have been occasioned by the system which permits arbitrary assessments under certain conditions. In this connection it can only be presumed, since post audit is forbidden, that the several safeguards normally provided by a good system of internal control have been properly exercised.

Collections - Partial Payments: It was noted that many persons against whom warrants have been issued for non-payment of taxes were making partial payments to Department constables. These payments are being held by them until complete payment has been made. A request was made for complete lists of partial payments being held by constables, but were not received while the audit was in progress. It is suggested that all such income be turned in when received.

Cash Collections - Miscellaneous Tax Accounts: It was noted that postings to the individual accounts in several of the miscellaneous tax classifications were several months in arrears. It is suggested that a stronger effort be made to bring these postings to a current basis.

Miscellaneous Taxes - Ledger Cards: It is understood that individual ledger cards have been taken from the files by persons other than those responsible for them. Lost or misfiled cards are frequently the result of free access to the files. It is suggested that a stricter control be exercised over all individual ledger cards, as they are a most important part of the accounting system.

Corporation Taxes - Abatements: Several verification notices were returned with notations indicating that the unpaid taxes referred to had been abated by the Department. Such abatements, however, did not appear on the account records, and it was subsequently learned that about 1400 abatements had been allowed but were being held up awaiting signatures of authorization.

It is suggested that all abatements allowed be signed by the proper person or persons in sufficient time so that they may be recorded properly and balances be correctly shown. The present arrangement could cause confusing situations if warrants were issued for taxes already abated. It is also possible that necessary interest payments might be increased because of the time element involved.

Collection Division - Warrants Collected: For the twelve month period ended November 30, 1953, collections from these sources totaling \$851,946.82 were made on the basis of 9,624 cases as follows:

Taxes	\$820,435 95
Interest	26,645 62
Cost	<u>4,865 25</u>
	<u>\$851,946 82</u>

Allocation of Income Tax Receipts to Funds: It was noted from the records that a transfer of funds amounting to \$1,500,000.00 made by the department as of May 31, 1954 to affect an adjustment of the revised formula employed in distributing the 1954 Income Taxes (Chapter 62, as amended) to the respective funds of the Commonwealth subsequently resulted in an overstatement of \$1,473,901.52 in the General Fund as of June 30, 1954 and a corresponding understatement in the Income Tax Agency Fund as of the same date. The adjustment was made as the result of an analysis of the gross collections of 1954 Income Taxes through February 28, 1954 which amounted to \$4,322,027.40 or only 6.325% of the total 1954 Income Tax collections through June 30, 1954. The revised formula, however, was based on the analysis of 100% of the gross collections of the 1952 Income Taxes and was amended in January 1954 by the department to give effect to

Chapter 4, of the Acts of 1954 which provided for a 25% tax deduction on business income. A schedule of the 1954 Income Taxes collected through June 30, 1954 and allocated to the Funds of the Commonwealth is as follows:

<u>Fund</u>	<u>Allocations Revised Formula</u>	<u>Adjustment May 31, 1954</u>	<u>100% Actual Analysis</u>	<u>Variance June 30, 1954</u>
General:				
Additional Tax				
Tax	\$ 8,144,891 95	\$1,500,000 00	\$ 8,204,637 77	(\$1,440,254 18)
20% Surtax	12,787,608 25	-	12,754,401 94	(33,206 31)
Old Age:				
3% Surtax	1,913,599 93	-	1,913,158 90*	(441 03)
Agency:				
(Cities and Towns)				
Regular Taxes	45,494,080 46	(1,500,000 00)	45,467,981 98	1,473,901 52
	<u>\$68,340,180 59</u>	<u>-</u>	<u>\$68,340,180 59</u>	<u>-</u>

* Deficit of Old Age Assistance Fund on June 30, 1954 charged to the General Fund per Section 13 of Chapter 489 of the Acts of 1953.

The above facts appear to indicate that the department acted prematurely in adjusting a revised formula that proved to be 99.9618% accurate.

STATE AIRPORT MANAGEMENT BOARD

REPORT NO. 55-3

Logan Airport - Income: The cash receipts from airline operators using the airport facilities and the receipts from other commercial rentals at Logan Airport indicates a continued increase. A comparison of these receipts for the past six fiscal years follows:

1949	\$382,772 91
1950	445,838 61
1951	648,378 53
1952	787,830 72
1953	905,142 76
1954	960,677 83

Present indications are that this revenue will experience further future increases since the facilities at this airport have not yet been fully developed. There is a certain amount of new construction in process which when completed should bring substantial revenue increases. These include the new American Airlines Hangar and the new Control Tower Building which are being constructed from State funds. A new automotive service center to be constructed privately on the basis of a long-term lease should also bring in additional revenues to this agency.

Logan Airport - Materials and Supplies Inventory: A complete inventory of the materials and supplies on hand in the storeroom of this airport was taken on July 16, 1954 and was compared with the control account balances in the stock ledger with the following results:

	<u>Number of Items</u>	<u>Value</u>
Inventory per Stock Ledger		
(Includes Accounts Payable)	<u>357</u>	\$24,361 05
Add:		
Overage per Physical Count	18	265 80
		<u>\$24,626 85</u>
Less:		
Shortages per Physical Count	20	255 86
Physical Inventory		<u>\$24,370 99</u>

The previous audit report commented that there were several items in the stock room which had been charged to maintenance expenses or construction costs during past years. It was further noted that certain items which had been transferred from Hanscom Field in March, 1953 were also in this storeroom. These items which were valued at \$3,586.65 had been charged to expenses on the records of Hanscom Field at the time of the transfer, do not appear on the stock records at Logan Airport. The Comptroller's Accounting Manual provides the method for handling such items as follows:

"If it is desired, spending agencies may keep a separate stock ledger form as a reference and record book for items which are not entered in the materials and supplies ledger, but are charged directly to expenses. The accounts in this book, if kept, should be arranged in the same order as they are grouped in the monthly financial report."

It is understood that an accurate inventory of these items is being taken for the purpose of their being properly recorded in accordance with the foregoing directive.

Termination of Lease by Board: At a meeting of the Board held on April 7, 1954, it was voted to terminate the lease of the tenant operating a chartered air taxi service at Logan Airport not later than April 30, 1954. This concern was several months in arrears in its accounts for both space charges and electricity and had failed to submit any monthly reports covering flight departures and use of ramp for loading and unloading and servicing aircraft since November 1, 1953. The total amount owing by this debtor upon termination of the lease indicated was as follows:

Flight Fees	November 1, 1953 to April 30, 1954	\$189 00
Use of Loading Ramp	November 1, 1953 to April 30, 1954	11 34
Space Rental	November 1, 1953 to April 30, 1954	280 01
Utilities - Electricity	September 3, 1953 to May 4, 1954	58 06
Gas and Oil Charges	November 1, 1953 to March 31, 1954	3 45
Total		<u>\$541 86</u>

It was also noted that a successor corporation requested and was granted permission by this Board to operate this air taxi service commencing May 1, 1954. This corporation was required to pay all the past indebtedness of its predecessor, consequently no loss of revenue from this source occurred. It was further noted that the required payments by this concern are being made currently.

This lessee also operated on a tenant-at-will basis until June 30, 1954, when a new lease was executed. This new lease stipulates the posting of a \$2,000.00 surety bond for faithful performance of its terms and conditions. It was noted, however, that this bond had not yet been posted. It is understood that steps have been taken to enforce compliance with this stipulation.

Logan Airport - Payments on Delinquent Account: During the period under audit a concessionaire at the Logan Airport who operates the parking lots paid a total of \$4,800.00 on an old balance which developed from operations during the 1951 calendar year. The amount of the original account was \$20,569.95 and the current balance was \$6,498.29 as of July 16, 1954. It was noted that one of the requirements in the current agreement covering the period from January 1, 1953 to September 30, 1954 stipulated that \$1,600.00 quarterly will be paid on the old balance.

Logan Airport - Restaurant Concession: In this connection, a previous audit report stated:

"At a meeting of the Board held on April 28, 1952, an abatement of \$2,000.00 per month was voted for a certain restaurant concessionaire. This abatement was to be effective for twelve months beginning April 1, 1952, and created a new minimum basic fee of \$35,497.44 for twelve months' period. The reason indicated for this action was that space had been leased to another concessionaire in the restaurant business and that the original concessionaire had consequently suffered a substantial loss in receipts."

At a meeting of the Board held on July 22, 1953, it was noted that it was voted to

further adjust this minimum basic fee and it was established at \$42,000.00 per year, payable \$3,500.00 monthly. The new arrangement was to effect only the period from April 1, 1953 to March 31, 1954. It was further stated that the amount of \$42,000.00 would remain as the basic annual minimum, but at the close of the year the actual rent would be computed on the original percentage basis. In the event that the computation on the latter basis exceeded the minimum, it would be payable only after the amount of \$17,497.44 was deducted from the computed amount. In this connection, it is mentioned that this amount was apparently established as follows:

Original Lease, October 1, 1950 to September 30, 1955:	
Payable \$4,958.12 monthly or annual rate of	\$59,497.44
Minimum Established - Meeting of July 22, 1953	<u>42,000.00</u>
Basic Abatement	<u>\$17,497.44</u>

On the basis of the foregoing arrangement, an additional amount due of \$7,697.08 was established and paid on May 6, 1954. This amount was computed as follows:

Rental - Based on Percentage of Sales:	
April 1, 1953 to March 31, 1954	\$67,194.52
Less:	
Basic Abatement	<u>17,497.44</u>
	\$49,697.08
Less:	
Minimum Paid	<u>42,000.00</u>
Balance of Rent, Payable as of March 31, 1954	<u>\$7,697.08</u>

In connection with this matter, attention is directed to the fact that the minutes of the Board's Meeting when this abatement was originally allowed indicated that the action developed because space had been rented to another concessionaire also in a kindred business with the effect that there was a resultant loss in receipts. Inasmuch as there has been a substantial increase in the volume of business of this tenant, it is suggested that the entire matter be reviewed and the original contract enforced, as obviously the reasons advanced for allowing the abatements indicated are no longer applicable.

It is understood that there is presently before the Board for consideration a request for certain revisions in the terms and payments of the present lease.

Hanscom Field - Release of Certain Airport Land and Buildings to the United States Air Force: In accordance with the provisions of certain documents dated February 25, 1952, the Commonwealth leased a certain part and transferred by deed another part of that airport to the United States Air Force. The Federal Government agreed to provide the same or alternate buildings, facilities, utilities, roads and apron areas for the Commonwealth and its lessees in the area to be retained under the exclusive jurisdiction of the Commonwealth in lieu of the same in the area now occupied, since this area is required by the Government.

Final plans and specifications for construction by the United States Air Force of the civilian area were approved as of June 10, 1954. It was noted that the agreements of February 25, 1952 require that this work be completed not later than January 1, 1958.

Hanscom Field - Accounts Receivable: The previous audit report stated that there was an account in the amount of \$6,869.17 as of November 9, 1953 which was long overdue. After conferences with the president of this concern, this Board on February 4, 1954 voted the following action be taken:

"That proposal of ... (delinquent tenant) ..., to reduce indebtedness of said company at Hanscom Field by the payment of \$350.00 monthly, in addition to regular scheduled rental payments, be approved, subject to proviso that current rental payments must be strictly adhered to, and that if at any time the \$350.00 monthly payment is not made the Board is to be notified within one week."

During 1954 the tenant has paid \$3,305.68 on his old balance, reducing his indebtedness to \$3,563.49. It was also noted that monthly rental payments are being currently made.

Hanscom Field - Delayed Monthly Sales Reports by Tenant: It was noted that the restaurant lease was transferred to a different concern effective March 1, 1954, with the approval of the Board. This lease calls for an annual rental of \$630.00 per year plus 5% of the gross sales. The records indicate that the lessee is delinquent not only in the current month's rent, but has not paid any part of the percentage rental since March 1, 1954. In addition, individual monthly reports of gross sales have not been filed as required, and as a result no charges to this account could be made monthly to cover the additional rent under the percentage clause. During July this concessionaire filed a consolidated sales report for the period ended June 30, 1954, indicating that a total of \$964.99 in additional rent was due.

It was noted that this Board at its meeting held on August 24, 1954, directed this lessee to make payments of \$50.00 per week towards reducing the delinquent indebtedness. All current payments are to be made currently.

SECRETARY OF THE COMMONWEALTH

GENERAL DEPARTMENT

REPORT NO. 55-7

Vital Statistics: The previous audit report stated in this connection, as follows:

"Previous audit reports have questioned the propriety of permitting a private person who is not a state employee to have access to certain vital statistics records for the purpose of furnishing certain statistical data to the National Office of Vital Statistics. This information should be prepared by state employees and all money received from the U. S. Government should be recorded in the name of the Commonwealth and deposited with the State Treasurer.

"At the written request of the Secretary of the Commonwealth, the Attorney General rendered an opinion on these questions on December 8, 1949, which reads in part as follows:

"It follows, therefore, that to permit a private contractor to examine the record of all births in the Commonwealth which are under the supervision of the State Secretary, would involve a violation of G. L. (Ter. Ed.) c. 46 sec. 2A. Hence, the answer to the first question proposed is in the negative as to your entering into the contract in your individual capacity and in the affirmative as to entering into the contract in your official capacity. This would seem to eliminate the necessity of answering the second question.

"As to your third question, it is my opinion that all moneys received from the Federal Government, through the National Office of Vital Statistics, for the work performed in your department under the contract made by you in your official capacity as State Secretary should be deposited as a whole with the Treasurer and Receiver-General of the Commonwealth, and payments made therefrom only in the ordinary and usual course of transacting public business.

"The effect of this opinion, however, is not to deprive the National Office of Vital Statistics of valuable statistical and public health reports. It would appear that ample authority is conferred by G. L. (Ter. Ed.) c. 262, sec. 36 and 37, upon the State Secretary acting in his official capacity to furnish the required information at the rate paid by the Federal Government.

Very truly yours,

s/ Francis E. Kelly
Attorney General

"Despite the clarity of this ruling, the work performed for the United States Health Service is still apparently continuing to be done by persons not employed by the Commonwealth."

It was noted that the situation as described above remains unchanged. The following statement indicates the cash activity in this "private enterprise":

Balance September 3, 1953	\$ 2,677 28
Receipts:	
September 3, 1953 to August 10, 1954	8,628 22
	<u>\$11,305 50</u>
Disbursements:	
Wages, Taxes, etc.	\$ 8,690 18
Checks Payable to Cash	530 00
	<u>\$ 9,220 18</u>
Balance August 10, 1954	2,085 32
	<u>\$11,305 50</u>

SOLDIERS' HOME IN MASSACHUSETTS

REPORT NO. 55-8

Due From Federal Government: Under Public Law 823 of the 81st Congress, \$500.00 per patient per year is to be made available until June 30, 1956 toward the support of patients at this institution. This money is recorded as income to the Commonwealth's Veterans' Service Fund when notification to that effect is received from the State Treasurer, to whom all checks are sent directly by the United States Treasury. On the date of this audit, there was due to the Commonwealth \$66,661.75 representing the amount billed the United States Government for the board and care of patients for the period from April 1, 1954 to June 30, 1954. This money will be credited as income of the 1955 fiscal year as it is the practice not to record these items as income until the money is actually received by the State Treasurer.

While this audit was in progress, Federal House Resolve 8180 became effective. Under the provisions of this law, the amount made available toward the support of patients at this institution was increased to \$700.00 per patient per year.

Patients Receiving Assistance Under Public Law 149: On March 13, 1952, the Board of Trustees authorized the Commandant to collect the difference between the patients' basic pension and the allowance of \$129.00 received monthly under Public Law 149. This difference, representing care and attendance allowance, is allowed for the purpose of providing attendance of another person to aid and care for the veteran recipient because of his condition. The payment of this allowance to the Soldiers' Home during the patients' hospitalization became effective in July 1952. One-half of the money collected from patients under this law is returned to the Federal Government.

In this connection, the previous audit report stated:

"In further connection with this matter it was noted that certain Accounts Receivable have been adjusted on the records. An analysis of these adjustments indicates that in all but five instances they were merely for adjustments of erroneous charges. The remaining five cases appear to have been charge-offs of balances. As no record of any authority was indicated as having been received from the Attorney General to charge off these accounts, it is recommended that these charges be reviewed and they be disposed of in accordance with the procedures outlined in the Accounting Manual of the Comptroller's Bureau."

It was noted that a Suspense Account has been established. It is understood that charge-offs will be made only when authorized by the Attorney General.

Accounts Receivable: Under authority granted by Chapters 501 and 687 of the Acts of 1951 and Chapter 296 of the Acts of 1952, the Trustees are authorized to enter into certain contracts with hospital service corporations and with insurance companies and associations furnishing hospital services, with respect to hospital services for qualified veterans. During the period under audit, collections from those organizations amounted to \$83,054.44.

In connection with this income, it was noted that no Accounts Receivable ledger is being maintained. It was again noted that it is still the practice to record this income on the books only when collections are made.

WORCESTER STATE HOSPITAL

REPORT NO. 55-9

Return of \$4,268.43 Cash Advance from 1954 Appropriation Treated as an Expenditure by the Comptroller's Bureau: It was noted that one of the closing entries of June 30, 1954 had seemingly increased the maintenance expenditures for the 1954 fiscal year in the amount of \$4,268.43. This entry was explained as follows:

"To record as expenditures in 1954 the cash balance of the advance not returned to the State Treasurer until July 12, 1954"

In this connection, it was understood that the last day for the return of the advance money was established by the Comptroller's Bureau at July 8, 1954. This institution prepared a receipts voucher and a check for the necessary amount on July 8, 1954 and delivered both to the business office of the Department of Mental Health on that date. Apparently because the check did not reach the office of the State Treasurer before the stipulated date as indicated, the amount was considered an expenditure for the 1954 fiscal year, and is being carried by the Comptroller's Bureau as a credit to income accounts of the 1955 fiscal year.

It, therefore, appears that the institution is being charged with expenditures totaling \$4,268.43 in excess of those actually incurred during the 1954 fiscal year and will be credited with that amount as miscellaneous income during the 1955 fiscal year.

Variances Between Quarters Register and Pay Roll Deductions for Room Rent: In this connection, the previous audit report stated as follows:

"In checking the amounts authorized to be deducted from employees' salaries as indicated on the quarters register to the pay rolls two instances were noted where the amounts on the pay roll were less than the amounts indicated on the quarters register. In this connection, one employee's rate as appearing on the quarters register was \$1.76 per week whereas only \$1.32 was deducted from his salary on the pay roll. This variance ran weekly from December 2, 1952 to January 9, 1954, when it was called to the attention of the Institution Treasurer after it was noted during the course of this audit.

"The other instance developed for only the month of September 1953 and comparable amounts were indicated.

"It is understood that the proper adjustments will be made on subsequent pay rolls."

It was noted that all adjustments necessary in relation to the foregoing had been effected.

In connection with a test check of the amounts authorized to be deducted from employees' salaries as indicated on the quarters register, one instance of an undercharge and several instances of overcharges were noted. This verification included only the activities of one month coming within the audit period.

It was understood that the proper adjustments will be made on subsequent pay rolls.

It is recommended that more careful attention be directed to insure the accuracy of these deductions in relation to the pay rolls.

LOWELL TECHNOLOGICAL INSTITUTE OF MASSACHUSETTS REPORT NO. 55-10

Accounts Receivable - Research Foundation: In this connection, the previous audit report stated:

"On the date of audit, there was due from Lowell Technological Institute Research Foundation \$16,281.74, which represented amounts owed for the use of certain of the Institute's facilities over a period of more than two years.

"It was noted, however, that no record of this has been entered on the Institute's records nor has any payment been received on this account for more than two years.

"It is recommended that this amount be properly recorded and that subsequent charges be currently made monthly. It is further suggested that steps be taken to collect this item."

It was noted that the balance due the Institute has been increased to \$30,378.01 on

the date of the current audit and that payment of only \$1,729.25 had been made on account. This matter is commented on more extensively in the separate report of an audit of the Research Foundation.

It was further noted that in accordance with recommendations made in the previous audit report, proper accounting records relating to this account are now being maintained by the Institute.

Summer School: In this connection, the statute appropriating funds for the maintenance of the Lowell Technological Institute stipulates that the summer school be operated at no expense to the Commonwealth. In this connection, Item 1345-01 of Chapter 489 of the Acts of 1953, reads as follows:

"For the maintenance of the Lowell Technological Institute of Massachusetts, with the approval of the trustees, including not more than one hundred and thirty permanent positions, and including the sum of ten thousand dollars which is to be assessed upon the city of Lowell as a part of the charges to be paid by said city to the commonwealth in the calendar year nineteen hundred and fifty-three; provided, that said institute is hereby authorized to conduct a summer school at no expense to the commonwealth, and for said purpose the institute may receive and expend income derived therefrom . . ."

The examination of the Institute records, however, failed to show any evidence of a summer school session. Upon inquiry, it was learned that the Alumni Association of the Institute maintained these records and deposited all cash receipts derived therefrom in the Alumni Association bank account and also disbursed such funds. By this method there occurred the intermingling of private and public funds in one bank account, and also the resultant mingling of state accounting records with private records. In order to examine this activity, it became necessary to review practically all the accounts of the Alumni Association which is a private agency.

On request, records of the Alumni Association were presented for examination, and based on information made available a Balance Sheet as of September 20, 1954 and a statement of Cash Receipts and Disbursements for the audit period were prepared and are made part of this audit report. These statements include only those funds which relate to "money received on account of the Commonwealth".

Article LXIII, Section 1 of the Constitution of Massachusetts provides as follows:

"All money received on account of the commonwealth from any source whatsoever shall be paid into the treasury thereof."

It is immediately obvious that in the handling of funds from this activity the officials of the Institute have ignored this constitutional provision by allowing a private agency to collect and expend the income accruing from an activity of the Commonwealth.

Attention was directed to this matter while this audit was in progress, and it was suggested to the school officials that the balance remaining of monies received from this source on account of the Commonwealth, which then totaled \$6,462.02, be returned by the Alumni Association and then transmitted to the Treasurer and Receiver-General forthwith.

It was noted, however, that on December 1, 1954, subsequent to the completion of this audit, only \$2,659.43 of these funds was turned over to the Department of the State Treasurer and was credited on the Comptroller's records to an account termed "Fees - Summer School". This action was taken by the college authorities despite the unmistakable provisions of the following instructions received by them from the Comptroller's Bureau:

(COPY)

Comptroller's Bureau

October 28, 1954

Mr. Martin J. Lydon, President
Lowell Technological Institute
Lowell, Massachusetts

Dear Sir:

Chapter 453, Acts of 1954, under Appropriation Item 1345-01, provides in part as follows:

"...that said institute is hereby authorized to conduct a summer school at no expense to the commonwealth, and for said purpose the institute may receive and expend income derived therefrom."

In order to provide for the proper accounting for Receipts and Expenditures pertaining to the Summer School, the following Restricted Revenue Accounts have been established for the Lowell Technological Institute:

1345-40-02-36	Fees - Summer School
1345-69-02-40	Miscellaneous - Summer School
1345-80	Summer School

Receipts on account of the Summer School must be entered on the debit side of the General Cash book as a credit to Fees - Summer School and posted to the Income Account (s) in the General Ledger. These Receipts should be deposited in the General Cash Account and when transmitted to the State Treasurer, (at least once a week), a check should be drawn against the General Cash Account, payable to the Commonwealth of Massachusetts and accompanied by a Receipts Voucher using that Receipt Account Number prescribed above. At this time an entry should be made on the credit side of the General Cash Book as a debit to Funds Transferred to State Treasurer.

This Summer School Restricted Revenue Account will not be subject to Allotment. All Purchase Orders and Invoices pertaining to this account are to be processed through the Comptroller's Bureau in the usual manner, using the Account 1345-80, Summer School. At no time may the expenditures and/or encumbrances exceed the total of the recorded Receipts on the records of the Comptroller's Bureau for any fiscal year Summer School session.

Receipts on hand, if any, that pertain to all Summer Schools prior to July 1, 1954 should be transmitted to the State Treasurer, together with a Receipts Voucher, using the Account No. 1345-69-02-40, Miscellaneous - Summer School. These amounts will be reverted to the General Revenue of the Commonwealth and will not be available for expenditure on account of the Summer School session conducted after July 1, 1954.

Receipts on hand, if any, that pertain to the Summer School session conducted during the calendar year 1954 should be transmitted to the State Treasurer, together with a Receipts Voucher, using the Account No. 1345-40-02-36, Fees - Summer School. Also, a detailed listing of all Receipts and Expenditures to date pertaining to the session for the calendar year 1954 must be submitted to this Bureau.

Purchase Orders and/or Invoices on hand, if any, that pertain to the 1954 Summer School session should be submitted to the Comptroller's Bureau and will be processed in the usual manner.

Those encumbrances outstanding, if any, pertaining to each annual Summer School session will be reserved and any unencumbered balance will revert to the General Revenue of the Commonwealth.

This supersedes all previous instructions from this Bureau pertaining to Summer School sessions.

Very truly yours,

FRED A. MONCEWICZ

By /s/ R. E. Houghton

Deputy Comptroller

JAP/D

Following receipt of these instructions, while the college forwarded \$2,659.43 to the State Treasurer, they continued to withhold \$3,802.13 on their own contention that this sum represented "gifts for the conduct of special refresher courses".

It should be obvious to officials engaged in the operation of a high educational institution, that all funds received by them are received by them only in their capacity of officials of the Commonwealth. Certainly such funds are not given them as private individuals for private purposes and, therefore, such contributions must come under the provisions of the Constitution as herein cited. We must assume that the actions of the officials in this instance are prompted only by a desire to avoid public accountability for expenditure of these funds, for if the provisions of the Constitution are met, the school would still be free to make any reasonable expenditure without the usual State restrictions.

The operations of this Institute during the past several years have clearly indicated an expanding desire on the part of its officials to be the continuing recipients of public financial support, but at the same time they seek to avoid accountability of the expendi-

ture of the same public funds.

The monies referred to in this comment now held by the Alumni Association should be immediately transmitted to the State Treasurer.

Deposits - Summer Courses: It was noted that a ledger account designated "Deposits - Summer Courses" appears in the books of account. This account shows the receipts and disbursements derived and incurred primarily from rental of State facilities for conventions, meetings, etc. It is suggested that all receipts from these sources be deposited intact with the State Treasurer and the payments of invoices should follow the procedures as directed by the Comptroller's Bureau for regular state accounts. It is further suggested that the title of this account be changed to one that is more descriptive of the transactions recorded in it.

An analysis of this account follows for the period from August 31, 1953 to August 16, 1954:

Receipts:

Lowell Sun Charities		\$ 344 52
Rents:		
Fiber Society Meeting	\$ 455 00	
Massachusetts Federation of Labor	2,250 00	
Lowell Technological Institute Alumni Association	300 00	3,005 00
		<u>\$3,349 52</u>

Disbursements:

Janitor and Laundry Services, etc.	\$ 400 65
Institute Cafeteria - Meals	1,788 00
Transferred to State Treasurer	634 20
Total Disbursements	<u>\$2,822 85</u>
Balance August 16, 1954	526 67
	<u>\$3,349 52</u>

It is also suggested that the balance indicated in the amount of \$526.67 be turned over to the State Treasurer forthwith.

Salary Augmentation: It was again noted that certain members of the faculty exceeded the maximum salaries of their respective classifications as were established by the Division of Personnel through extra compensation received from the New England Textile Foundation and Lowell Technological Institute Research Foundation. A plan for such extra compensation for these faculty members was originally approved by the Chairman of the Commission on Administration and Finance on September 29, 1947. This plan follows:

- "1. Amounts may be awarded by the New England Textile Foundation directly to those faculty members recommended by the administration heads of the Lowell Textile Institute, New Bedford Textile Institute, and the Bradford Durfee Technical Institute, with the approval of their respective Boards of Trustees.
- "2. Awards may be made to faculty members in amounts such that the total salaries shall not exceed the maximum salaries of their respective classifications as established by the Division of Personnel.
- "3. Awards may also be made to faculty members for assignments and for services in addition to their full-time teaching schedule.
- "4. A report of the awards made under the above plan by the New England Textile Foundation will be filed with the Commission on Administration and Finance."

In view of the precedent thus established and the evident intent of the Commission on Administration and Finance to control such extra compensation, the Commissions' attention is directed to the fact that since this plan was adopted new sources of funds have developed, namely, Summer School and the Lowell Technological Institute of Massachusetts Research Foundation and it is now the contention of the School that extra income from these new sources is not subject to this plan. To summarize, it is now possible to augment employees salaries from the following sources:

1. Regular promotions and step-rate increases
2. New England Textile Foundation
3. Evening School
4. Student Activities
5. Summer School
6. The Research Foundation

In connection with this matter, audit reports of the past few years have included repeated suggestions that the Commission on Administration and Finance clarify this entire matter. Inasmuch as, to date, nothing has been done in this direction, it is now specifically requested in the interest of sound business principles that such directives be supplied as soon as possible.

**LOWELL TECHNOLOGICAL INSTITUTE OF MASSACHUSETTS
RESEARCH FOUNDATION**

REPORT NO. 55-11

Cash: Several instances were noted that indicated an apparent lack of internal control with respect to handling and entering cash items. These include the following:

1. Income cash was not deposited daily.
2. Income cash was used as part of the advance money in the amount of \$274.99.
3. The Advance Fund from State Treasurer was not cleared as of June 30, 1954, and there were open balances totaling \$334.00.
4. Bank reconciliations were not completed monthly.
5. Checks were signed in blank prior to issue.
6. Adequate records of pay roll advances were not made available.
7. Pay roll advance slips were not being completely filled out.

It is urged that the necessary steps be taken to correct the conditions indicated. In this connection, it is suggested that the income cash be deposited to the account of the Treasurer and Receiver-General of the Commonwealth of Massachusetts promptly; that an Imprest Fund be installed for petty cash items and its control be delegated to one employee; that all petty cash vouchers be approved by a responsible official before payment; that all petty cash vouchers be stamped or otherwise marked when paid to prevent duplicate payment and that the office cash be proved at close of each day's business to ascertain that all cash items have been properly accounted for.

Services Rendered - Unbilled: It was further noted that as of August 31, 1954 certain services had been rendered, but billings had not been made on accounts totaling \$50,504.98. These included the following:

	<u>Amount</u>	<u>No. of Projects</u>
United States Air Force	\$30,278 39	9
United States Department of Agriculture	3,038 55	1
Private Industry	17,188 04	41
	<u>\$50,504 98</u>	<u>51</u>

Accounts Payable: Attention is directed to the fact that the accounts payable as of August 31, 1954 consisted of the following:

Pay Roll - Faculty, Students, Other	\$8,455 10	
Regular Pay Roll	642 73	\$ 9,097 83
Commonwealth of Massachusetts		30,378 01
Outside Accounting Fees		1,700 00
		<u>\$41,175 84</u>

In connection with the foregoing, it was noted that with the exception of the amount owed to the Commonwealth of Massachusetts all the items are for current expenses. With reference to the amount owed to the Commonwealth the previous audit report stated as follows:

"The previous audit report indicated that it was agreed, at a meeting of the Executive Committee of the Board of Directors held

on July 13, 1951, to reimburse the Commonwealth for the use of facilities of the Institute on the following basis:

- "1. It is agreed that the Foundation would recommend to the State that 15% of direct labor costs be the overhead payment to the State for the use of the Institute's facilities regardless of the nature of the facilities."
- "2. Certain contracts in existence prior to the establishment of the 15% rate provided for only 10% overhead charges to customers. In these cases, the amount of reimbursement to the State will be at the rate of 10%."

It was further noted that this amount has increased from \$16,281.74 at the time of the previous audit to \$30,378.01 on date of this audit and that only \$1,729.25 has been paid on this account during this period.

Inasmuch as these charges have been accumulating for a period in excess of three years, while other charges are being currently paid, it becomes obvious that all other creditors have been given preferential treatment over the Commonwealth. This situation is, of course, eminently unbusinesslike and should not be condoned, particularly in view of the fact that the fee due the Commonwealth is specifically indicated and collected in the respective billings made by the Foundation.

It is, therefore, suggested that some equitable arrangement be completed so that a program for the liquidation of this obligation may be put into effect.

Attention is further directed to the fact that as of the date of audit, certain monies had been received by this Foundation in anticipation of services being rendered. These include the following:

Advance Payments Unearned:

U. S. Department of Agriculture:

Project #321

\$199 80

Project #401

395 43

\$ 595 23

Committee of Wool Scourers

4,418 21

\$5,013 44

Deposits from Sponsor:

Bates Manufacturing Company

\$1,000 00

Kendall Corporation

1,000 00

\$2,000 00

Total

\$7,013 44

PORT OF BOSTON COMMISSION

REPORT NO. 55-12

General: An examination of statistics for the past seven years indicates the following tonnage handled annually in the Port of Boston, and includes tonnage handled at Port of Boston Commission facilities:

<u>Calendar Year</u>	<u>Total Tonnage</u>
1947	18,502,902
1948	18,317,356
1949	15,363,529
1950	18,194,438
1951	18,976,880
1952	19,237,945
1953	17,803,354

Deficiency: It was noted that the deficiency existing in the Port of Boston Fund on June 30, 1953, totaling \$4,679,926.45, was charged to the surplus account in the General Fund under authority of Section 11, Chapter 408 of the Acts of 1953.

The deficiency for the year ended June 30, 1954 amounted to \$536,597.94 and was also charged to the General Fund surplus account in accordance with Section 12, Chapter 489 of the Acts of 1953.

Sales of Land: During the audit period \$38,283.33 was realized by the Commission from sales of land. Of this amount \$6,000.00 was the balance due on a sales agreement

made and authorized during the prior audit period.

The sale of another piece of property was voted to the highest bidder of three bids of record for \$25,333.33. In this instance, it was seen that an appraiser, employed by the Commission, had appraised the property as valued between \$20,000.00 and \$25,000.00.

There was also received the sum of \$5,950.00 from the sale of another parcel of land at \$1.70 per square foot. In this case, an outside appraisal had been made. It was further noted that a check for \$1,000.00, representing a deposit on an option to buy other land, was deposited with the Commission in October 1953. On August 3, 1954 the Commission approved the request of the buyers to exercise their option and a check for \$84,000.00, representing the balance due, was deposited on August 19, 1954, subsequent to the date of audit.

During the previous audit period a deposit of \$1,000.00 had been received to apply toward the sale of still another parcel for \$8,000.00. Since the time limit expired without the option being exercised, it is suggested that the deposit of \$1,000.00 be forfeited.

Bond Account - Boston Harbor Facilities Loan Fund: Section 10 of Chapter 619 of the Acts of 1945 provides in part as follows:

"Section 10. Subject to the conditions herein imposed, for the purpose of purchasing sites and pier locations and the construction thereon of pier facilities under authority of chapter ninety-one A of the General Laws, inserted therein by section three of this act, the state treasurer shall, upon request of the Authority and with approval of the governor and council, issue and sell at public or private sale bonds of the commonwealth registered or with interest coupons attached, as he may deem best, to an amount to be specified by the Authority from time to time, but not exceeding, in the aggregate, the sum of fifteen million dollars..."

The status of the bond account authorized under this statute, as amended, follows:

STATUS OF CHAPTER 619, SECTION 10

As of June 30, 1954

Original Appropriation		\$15,000,000 00
Amended by Chapter 771, Acts of 1951	-\$1,200,000 00	13,800,000 00
Amended by Chapter 505, Acts of 1952	- 3,850,000 00	9,950,000 00
Amended by Chapter 649, Acts of 1953	+36,000 00	9,986,000 00

DISTRIBUTION BY PROJECTS

After Amendments

	<u>Original Appropriation</u>	<u>Ch. 771 Acts of 1951</u>	<u>Ch. 505 Acts of 1952</u>	<u>Ch. 649 Acts of 1953</u>
1) East Boston	\$ 7,500,000 00	\$ 7,500,000 00	\$3,650,000 00	\$3,686,000 00
2) Hoosac Pier and Grain Elevator	5,000,000 00	5,000,000 00	5,000,000 00	5,000,000 00
3) Mystic Wharves	1,300,000 00	1,300,000 00	1,300,000 00	1,300,000 00
4) Castle Island	1,200,000 00	-	-	-
	<u>\$15,000,000 00</u>	<u>\$13,800,000 00</u>	<u>\$9,950,000 00</u>	<u>\$9,986,000 00</u>

Expenditures and Encumbrances under above Bond Issues are described as follows:

1) East Boston: Chapter 545 of the Acts of 1948 states in part as follows:

"Subject to the conditions imposed by section ten of chapter six hundred and nineteen of the acts of nineteen hundred and forty-five, the Port of Boston Authority is hereby authorized, for the purpose of purchasing sites and pier locations and the construction thereon of pier facilities under authority of chapter ninety-one A of the General Laws, to make commitments and expenditures without further authorization by the general court therefor, from the proceeds of the bond

"issue provided for by said section ten up to but not in excess of the amount of seven million five hundred thousand dollars, such amount to be in addition to the amount heretofore authorized to be expended from said proceeds."

In this connection, Chapter 505 of the Acts of 1952 authorized the expenditure of \$5,850,000.00 on the East Boston pier facilities. Of this amount, \$3,850,000.00 was to be made available by transfer from the unexpended balance of an appropriation of \$7,500,000.00 provided by Chapter 545 of the Acts of 1948, and by an additional \$2,000,000.00 appropriated. A further addition of \$36,000.00 was made available by Chapter 649 of the Acts of 1953.

The following schedule shows the analysis of the disbursements and encumbrances under the accounts to June 30, 1954:

Bonds Authorized:		
Chapter 545, Acts of 1948 as amended	\$3,650,000 00	
Chapter 649, Acts of 1953	36,000 00	
	<u>\$3,686,000 00</u>	
Bonds Not Issued	36,000 00	
Bonds Issued	\$3,650,000 00	
Less:		
Payments and Encumbrances	3,685,803 52	
Deficiency		(\$ 35,803 52)
Bonds Authorized:		
Chapter 505, Acts of 1952	\$5,850,000 00	
Bonds Not Issued	2,750,000 00	
Bonds Issued	\$3,100,000 00	
Less:		
Payments and Encumbrances	5,352,485 14	
Deficiency		(2,252,485 14)
Total Deficiency		<u>(\$2,288,288 66)</u>
*1952 Fiscal Year	(\$ 35,803 52)	
1954 Fiscal Year	(2,252,485 14)	
	<u>(\$2,288,288 66)</u>	

	Payments	Encumbrances	Total
Purchase of Land	\$3,000,000 00	-	\$3,000,000 00
Personal Services	255,457 09	-	255,457 09
Expenses	19,806 29	\$ 259 50	20,065 79
Contracts	4,146,280 75	1,616,485 03	5,762,765 78
	<u>\$7,421,544 13</u>	<u>\$1,616,744 53</u>	<u>\$9,038,288 66*</u>

*Chapter 545, Acts of 1948, as amended	\$3,685,803 52
Chapter 505, Acts of 1952	5,352,485 14
	<u>\$9,038,288 66</u>

	Payments	Encumbrances	Total
Contracts:			
Test Borings	\$ 1,890 98	-	\$ 1,890 98
Renovating of Heating System	951 29	-	951 29
Demolition of Grain Gallery	13,429 81	-	13,429 81
Utility Line Supports	3,965 00	-	3,965 00
Relocating of Electric and Air Services	5,414 92	-	5,414 92
Replacing Aerial Cable	535 00	-	535 00
Alterations and Improvements to Grain Handling Facilities	357,392 86	-	357,392 86
Removal and Relocating of Certain Communication Lines	-	\$ 75 00	75 00

Relocation of Fire Alarm	\$ 199 80	\$ -	\$ 199 80
Electrical Work	729 00	-	729 00
Alterations - Telephone System	440 00	-	440 00
Demolition, Dredging, Filling	391,095 48	-	391 095 48
Construction - Substructure and Superstructure	3,078,456 85	1,598,820 15	4,677,277 00
Bronze Dedication Tablet	-	625 00	625 00
Furnishing Gravel and Fill	80,067 12	12,882 88	92,950 00
Demolition and Removal	1,200 00	-	1,200 00
Test Borings	4,918 00	4,082 00	9,000 00
Engineering Agreement	30,292 09	-	30,292 09
Engineering Services	175,302 55	-	175,302 55
	<u>\$4,146,280 75</u>	<u>\$1,616,485 03</u>	<u>\$5,762,765 78</u>

2) Hoosac Pier and Grain Elevator: Chapter 619 of the Acts of 1945 authorized the construction of Hoosac Pier and a Grain Elevator. This construction was financed by the sale of bonds in the amount of \$5,000,000.00 which were sold by the State Treasurer in accordance with a request made by the then existing Authority. The expenditures under this authorization were analyzed as follows:

	Payments
Purchase of Hoosac Pier	\$1,042,176 00
Purchase of Grain Elevator	100,000 00
Personal Services	131,464 09
Expenses	34,528 89
Contracts	3,691,831 02
	<u>\$5,000,000 00</u>

3) Mystic Wharves: This fund was established by Chapter 714, Acts of 1941, and was transferred to the Port of Boston Authority by Chapter 619 of the Acts of 1945. Its purpose was to acquire the Mystic Wharves and build a pier and develop a water-front terminal.

The following is a summary of activities in this fund to June 30, 1954:

Original Authorization	\$4,700,000 00
Transferred from Boston Harbor Facilities Loan Fund	<u>1,300,000 00</u>
	<u>\$6,000,000 00</u>
Total Bonds Authorized	\$6,000,000 00
Bonds Not Issued	<u>460,000 00</u>
Bonds Issued	\$5,540,000 00
Expenditures	<u>5,533,492 13</u>
Balance	<u>\$6,507 87</u>
Purchase of Land	\$1,345,000 00
Personal Services	147,251 88
Expenses	10,038 83
Contracts	4,031,201 42
	<u>\$5,533,492 13</u>
	<u>\$6,507 87</u>

4) Castle Island Terminal: Chapter 705 of the Acts of 1951 authorized the Port of Boston Authority to transfer certain lands in South Boston to the United States Government in exchange for certain land and improvements known as the Castle Island Terminal Facility.

Chapter 771 of the Acts of 1951 provided for the issuance of bonds to the amount of \$1,200,000.00 for construction and development of a waterfront terminal on this property. It was anticipated that construction would not commence until a lease for the property had been negotiated for a period of at least five years with a responsible party.

It was noted that deeds from the United States Government and from the City of Boston, which is also an interested party, are now in possession of the Commission, which is presently in the process of completing their legal recording.

Proposals for the "Leasing of the Castle Island Terminal" were duly and properly advertised with the approval of the Commission of Administration and Finance. It was noted that three bids were received and the lease was awarded to the Luckenback Steamship Company, Inc., for a period of five years at an annual rental of \$105,000.00 with provisions for further renewals. It is understood that this lease is now being negotiated by the Attorney-General's Office.

The construction of this facility will begin when the lease is in effect and will be under the supervision of the Massachusetts Public Building Commission.

Lease of East Boston Facilities: An interim lease for these premises which comprise five piers including an open pier was dated July 1, 1949. The rent for these premises is based on 3% of the net cost of the construction of this project. However, this net cost was reduced by the value of the land on or about the premises of Pier #2 when it was demolished, and therefore, the annual rental is computed as follows:

Cost	\$3,000,000 00
Less:	
Value Land at Pier #2	<u>175,000 00</u>
Net Cost	<u>\$2,825,000 00</u>
Rental Based on 3% of Net Cost	<u>\$84,750 00</u>

On December 31, 1951 the grain elevator renovation was completed. The railroad began paying rent on January 1, 1952 at a rate of 3% of the cost of renovation plus interest on the bond issue to the completion date of renovation. The annual rental is computed as follows:

Cost of Grain Elevator Renovation	\$449,813 48
Net Interest on Bonds	<u>16,698 07</u>
Total Cost	<u>\$446,511 55</u>
Rental based on 3% of Total Cost	<u>\$13,995 35</u>

The remaining piers are apparently in good condition and will probably require no major repairs, and they are presently in use.

At the expiration of this interim lease which is with the New York Central Railroad - when the Port Commission has completed the new pier - a lease for twenty years (with option for renewal) will become effective. This lease, however, originally provided for an annual rental of 3% of the cost of the construction, based on the following tentative figures:

Purchase Price	\$3,000,000 00
Value of Commonwealth Lands	<u>145,000 00</u>
Estimated Maximum Cost	<u>4,500,000 00</u>
	<u>\$7,645,000 00</u>

On September 3, 1952 however, an amended agreement was approved by the Governor and Council making provisions for increases in the cost of construction of the pier and grain facilities. Rentals, therefore, were increased and now it is stipulated that on completion of construction a lease will be written for twenty years at an annual rental fee of 3% of the following adjusted costs:

Purchase Price	\$3,000,000 00
Value of Commonwealth Land	<u>145,000 00</u>
Maximum Cost	<u>5,850,000 00</u>
	<u>\$8,995,000 00</u>

Mystic Pier #1 Lease: This pier is now completed. On August 1, 1952, the Boston and Maine Railroad occupied the premises under a twenty-year lease signed and approved by the Governor and Council. As of the audit date, it was paying a rental based on the rate of 3% of the final construction costs of \$5,702,540.90.

It was also noted that the railroad, in July 1954, submitted a two-year lease proposal which is currently under consideration by the Commission for Piers 48, 49 and 50.

Hoosac Pier Lease: A five-year lease, originally entered into with the Boston and Maine Railroad in May 1949, includes a clause to the effect that rentals will start upon completion of construction and continue for five years. As the property was occupied on March 1, 1951, the lease will expire on March 1, 1956 unless otherwise amended by mutual agreement. Rental is based on 3% of the construction costs which totaled \$4,543,289.00.

Hoosac Pier Computation of Rent: In this connection, the previous audit reports stated:

"Section 10 of Chapter 619 of the Acts of 1945 stipulates that the rent under the lease shall be at a rate sufficient to amortize sixty per cent of the actual cost to the Commonwealth. It is immediately obvious that 'actual cost to the Commonwealth' must include the cost of construction plus all the costs incident to its financing, and this department insists that the total cost of interest for the entire period while bonds are outstanding is an essential element in any rental computation. In this connection, it was noted that the Authority in making this computation included interest costs only to February 28, 1951."

Attention is directed to the fact that had the foregoing requirements been followed, the income from the first date of rental on March 1, 1951 to July 31, 1954 would have exceeded that which was received by \$45,755.88, computed as follows:

<u>Rental Period</u>	<u>Rent That Should Have Been Charged</u>	<u>Rent As Charged</u>	<u>Difference</u>
March 1, 1951 to June 30, 1951	\$ 49,689 28	\$ 45,432 88	\$ 4,256 40
July 1, 1951 to June 30, 1952	149,067 70	136,298 64	12,769 06
July 1, 1952 to June 30, 1953	149,067 70	136,298 64	12,769 06
July 1, 1953 to Aug. 31, 1953	24,844 64	22,716 44	2,128 20
July 1, 1953 to June 30, 1954	149,067 70	136,298 64	12,769 06
July 1, 1954 to July 31, 1954	12,422 32	11,358 22	1,064 10
	<u>\$534,159 34</u>	<u>\$488,403 46</u>	<u>\$45,755 88</u>

Hoosac Elevator Lease: The original lease with the Boston and Maine Railroad provided for rental of this elevator upon its completion, at an annual rental equal to 3% of the cost of the elevator and its additions, alterations, etc., for a period of twenty years was based on a tentative cost of \$525,000.00. This lease was later amended to reflect increased costs of \$125,292.79, which brought the total to \$650,292.79.

On May 28, 1952 another and final amended lease was approved by the Governor and Council increasing the ceiling cost to \$653,000.00.

It was noted however that the railroad actually occupied the premises as of April 20, 1951, and for a period of four months operated them on a trial basis until August 20, 1951 when the lease actually became effective.

Attention is again directed to the fact that the rental charges reflect only the interest charges on monies borrowed during the period of construction. In this connection, it is contended that these rental charges should include all interest costs during the entire life of the bonds.

Hoosac Elevator - Storm Damage: It was noted that considerable damage was suffered by two elevator walls during the two wind storms which occurred in November and December 1953. To date, expenditures for repairs were in excess of \$79,000.00 and, in part, will be recovered in the following manner:

1. \$25,000.00 from the insurance companies
2. An amendment to the present lease will recover for the Commonwealth 60% of the entire repair costs over the next twenty years.
3. The actual cost to the Commonwealth will be about \$6,745.00.

It was further noted that the two hurricanes which occurred in August and September, 1954, while this audit was in progress, further damaged the remaining walls to such an

extent that mjaor reconstruction is now necessary.

Terminal Operators, Incorporated: On November 1, 1946, the Port Authority granted a permit to Terminal Operators, Inc., to operate the Castle Island Terminal for the handling of commercial cargoes.

Since July 1, 1948 this concern has been operating under a rental agreement, although it has never been formllay negotiated in writing. Income to the Commonwealth has been based on a progressive percentage of net income of that corporation.

This corporation reported income for purposes of determining rental for the year July 1, 1953 to June 30, 1954 as follows:

Total Revenue by Terminal Operators, Inc.	\$248,252 73
Less:	
Expenses	132,173 71
Net Income	<u>\$116,079 02</u>

On the basis of this information, the rent accrued was computed to be \$71,159.27. There was received during the 1954 fiscal year cash in the amount of \$58,062.12, leaving a balance of \$13,097.15 to be paid within sixty days after June 30th. In this connection, it was noted that on September 17, 1954 a check for \$8,500.00 was received on account accompanied by a letter indicating that the balance of \$4,597.15 was being withheld by the corporation to allow for certain contingencies which might arise.

The withholding of this balance by the corporation would appear to indicate a violation of the agreement. It is further noted that the monthly basic payments of \$1,500.00 each for July and August 1954 had not yet been received prior to the completion of the audit.

It is also noted that this concern was one of the unsuccessful bidders for the lease to operate the Castle Island Terminals when the award was recently made.

Leases - General: The previous audit report commented that all future leases should be reviewed to determine that rentals will be adequate. It was further suggested that certain leases be awarded on a bid basis after being properly advertised. It is now understood that land and other values will be carefully appraised before future leases are made to the end that the Commonwealth may benefit from adjusted rentals. It was also noted that one lease, now in negotiation, was awarded as the result of competitive bidding.

DEPARTMENT OF AGRICULTURE

MILK CONTROL COMMISSION

REPORT NO. 55-13

General: Previous audit reports have commented fully on difficulties existing between the Milk Control Board and the Dairy Bonding Section of the Department of Agriculture occasioned by the passage of Chapter 791 of the Acts of 1950. This act, which was approved on August 16, 1950 with an "Emergency Preamble", transferred certain functions of the Milk Control Board relating to the Bonding of Milk Dealers to the Department of Agriculture.

Chapter 604 of the Acts of 1953 provided that the Division of Milk Control was to be under the control of a Commission to be known as the Milk Control Commission and left the Bonding of Milk Dealers in the Department of Agriculture.

The Milk Control Board was primarily created to protect the financial interests of certain Massachusetts milk producers, and included in its functions the Board regulates and audits prices paid milk producers. The Board is further responsible for the adequacy of the supply of fresh milk for consumers and dealers in the areas within the Commonwealth and under its control.

The Milk Control Commission, on the date of this audit employed eight individuals in its auditing sections as follows:

Supervising Inspector of Milk Records	1
Senior Inspectors of Milk Records	3
Inspectors of Milk Records	3
Principal Clerk	1
	<u>8</u>

As nearly as could be determined, the main purposes of the auditing section are to determine whether the milk dealers buying from Massachusetts producers are properly accounting and paying for milk purchased in accordance with the official orders of the Milk Control Board and include the following functions:

1. Conformity to price regulations
2. Satisfactory payments to producers when due
3. Adequacy of bond protection
4. Correctness of assessment payments

These auditors physically inspect and verify all payments of the milk dealers to producers within their jurisdiction. Items in transit are verified in subsequent audits. Determination of the adequacy of a bond is wholly dependent upon payment to producers.

From the foregoing it is, of course, obvious that sections of the Milk Control Commission and the Dairy Bonding Section of the Department of Agriculture have certain common purposes. This condition is covered by the common and duplicating laws and regulations which are indicated by Section 42H of Chapter 94 and Section 6 of Chapter 94A of the General Laws (Ter. Ed.). These laws have served to confuse the personnel administering them and also those milk dealers and milk plant operators for the benefit of whom the laws were originally put into effect.

Transfer of Certain Functions: Attention is called to the fact that the control accounts of the secured notes and surety bonds, savings accounts assigned, life insurance policies and real estate mortgages assigned, were transferred from the Milk Control Board to the Department of Agriculture in accordance with a letter of instructions from the Comptroller's Bureau dated November 14, 1950.

Insufficient Bond Coverage: An examination of the records of audits made by the Milk Control Commission Inspectors of the accounts of milk dealers in State-controlled areas indicated that eleven milk dealers with insufficient bond coverage were operating milk plants as of the date of audit. The bond deficiencies aggregated \$5,000.00. Six of these were still operating without a license. Notwithstanding the fact that Section 6 of Chapter 94A of the Tercentenary Edition of the General Laws provides for remedial action that can be taken against such dealers, the Milk Control Commission records failed to indicate that any legal action was pending against any of the above milk dealers for inadequate bond coverage.

Lack of Co-ordination: The fact that eleven dealers buying milk from Massachusetts producers and operating plants in Massachusetts with insufficient bond coverage without incurring legal action from either the Milk Control Commission or the Dairy Bonding Section of the Department of Agriculture indicates that little or no co-ordination exists between these two divisions within the Department of Agriculture. Proper action should have been taken against these dealers by the Milk Control Commission under authority of Section 6, Paragraph 10 of Chapter 94A of the Tercentenary Edition of the General Laws or by the Commissioner of Agriculture under authority of Section 42H, Paragraph 3 of Chapter 94 of the Tercentenary Edition of the General Laws. The continued lack of co-operation between these two divisions serves only to undermine the confidence and respect which the majority of milk dealers have for the laws of the Commonwealth. It is, therefore, suggested that these two agencies promptly take the necessary steps to inform each other, at regular intervals, of any changes in status or of other vital information concerning milk dealers whose operations are of mutual concern to the functions and responsibilities of both the Milk Control Commission and the Dairy Bonding Section of the Department of Agriculture.

Field Audits: An examination was made of the records of the audits performed by the field audit staff of this Commission during the current audit period and it was noted that less than one-third of the milk dealers located in the State-controlled areas are audited regularly, as is shown by the following schedule:

Number of Active Dealers in State-controlled
Areas as of August 16, 1954

Classification as to Licenses:

\$5.00	437	
2.00	45	
.50	66	
Pending Licenses	<u>123</u>	
	671	
Dealers not Licensed - Applications not Received	<u>29</u>	<u>700</u>

Classification as to Dealers Audited:

Number of Dealers Audited	196	
Number of Dealers not Audited	<u>504</u>	<u>700</u>

In connection with these audits, it is understood that those now made are of milk dealers who purchase milk from Massachusetts producers and who sell less than 10% in Federal-controlled areas. The records of these dealers are audited for conformity to producer price regulations, proper payments made within agreement periods and proper assessment payments to the Commission. Except for special field audits, no assessment audits are made of the other milk dealers in the State areas. The reason advanced for not making these audits on all dealers in State-controlled areas was insufficient personnel.

A test check made of the field audits performed in Federal-controlled areas by State Milk Control Commission auditors during the current audit period indicated that of 536 milk dealers located in these areas only one milk dealer was audited for verification of assessment payments.

The reason advanced for not making assessment audits on all dealers in Federal-controlled areas was inadequate operating funds.

In this connection, the previous audit report stated:

"It is understood that under a pending memorandum of agreement between the Secretary of Agriculture and the Milk Control Board, it will be possible to obtain from Market Administrators in Federal-controlled areas milk sales reports on milk dealers in their areas. These reports will furnish sufficient information to the Board so that it may be determined that the dealers in the Federal areas are paying correct assessments. The Federal Government under this agreement would charge the Board a nominal fee for each milk dealer's report."

It was understood that to August 16, 1954 no further action had been taken on this matter.

Delinquent Assessments: Monthly assessments payable by milk dealers under Section 9 of Chapter 94A of the Tercentenary Edition of the General Laws constitute the primary source of income for the Milk Control Commission. For the fiscal year ended June 30, 1954, \$159,830.48 or 96% of the total income of the Commission was received from this source. An examination of the assessment ledger indicated that 348 milk dealers were delinquent as of August 16, 1954, in the filing of required monthly reports of milk sales nor have they paid the assessments due, as follows:

Number of Dealers	Months Delinquent	Total Assessments Due
141	One Month	141
121	Two Months	242
62	Three Months	186
10	Four Months	40
6	Five Months	30
2	Six Months	12
3	Seven Months	21
1	Eight Months	8
1	Ten Months	10
1	Eleven Months	<u>11</u>
<u>348</u>	Totals	<u>701</u>

Unpaid Audit Assessments: In this connection, the previous audit report stated that there were outstanding balances totaling \$102.41 which resulted from field audits of cer-

tain milk dealers' records. These balances involved 42 accounts with debit balances totaling \$271.96 and 43 accounts with credit balances totaling \$69.55. In these instances, it was impossible to determine from the available records their disposition.

A review of field audit assessments made during the period under examination disclosed 71 dealers with balances totaling \$481.17, who have not fully paid their assessments. Also, 74 dealers with credit balances totaling \$313.51 have overpaid on their assessments and have not taken the credit due them. It is recommended that delinquent dealers be fully paid up and dealers with credits to have such credits given to them.

The previous audit report indicated four milk dealers who were no longer in business but who still owed assessments. This current audit further showed that three of these four accounts have been turned over to the Attorney General for collection in accordance with a suggestion in the previous audit report. It is understood that a refund is presently pending in the fourth case.

It was further noted in connection with the audit that seven milk dealers who are no longer in business still have open accounts - three with debit balances and four with credit balances.

The previous audit report suggested that the Comptroller's Bureau provide for an accounts receivable control account for such balances. In this connection, a letter from the Comptroller's Bureau dated February 5, 1954, stated:

"If a field audit report discloses any variances, a balance under or over is carried in appropriate column provided for that purpose until the dealer makes payment or takes credit."

It was also understood that the Comptroller's Bureau does not feel that it would be practical to set up a control accounts receivable for unpaid assessments.

It was noted that the records referred to in that letter have not been currently maintained. It was explained that this was caused by the lack of personnel.

Dealers Not Licensed: Section 5 of Chapter 94A of the Tercentenary Edition of the General Laws and the rules of this Commission require all license renewal applications and fees for renewals to be filed on or before June 15 of each fiscal year if the licensees wish to continue to engage in the milk business pending the action of the Commission on their respective license applications for the license year beginning July 1. The current examination indicated that out of 1,268 dealers in this Commonwealth, 576 dealers' application fees were received by this Commission after June 15. In this connection, about 318 dealers submitted their license fees after July 1, while they were actually operating milk dealers without licenses between July 1 and their respective dates of submitting of license fees.

As of August 16, 1954, 48 dealers had failed to pay their renewal fees. Before this audit was completed, however, all dealers had paid such fees.

Arrearages to Producers: It was noted that seventeen active dealers were in arrears for payments to their producers in amounts aggregating \$11,661.72.

The records of these dealers in the Dairy Bonding Section indicated that two owing \$893.36 had bond deficiencies based on their payment period; fifteen were sufficiently covered by bonds based on their payment period, but were not in an amount sufficient to cover their arrearages which amounted to \$10,768.36.

As of the date of the previous audit, balances totaling \$413.24 were due to producers from two dealers who were no longer in business and whose bonds had been liquidated to meet producer obligations. As of August 16, 1954 only \$28.18 of this amount remains unpaid. The balance has been determined uncollectible because of the death of the dealer and the case has been closed.

DEPARTMENT OF PUBLIC HEALTH

GENERAL DEPARTMENT

REPORT NO. 55-14

1954 Fiscal Year Liability Not Recorded on Books: An audit of the charges to the appropriation account for "Payment of Subsidies to Cities and Towns for Tubercular Patients in Certain Hospitals" for the 1954 fiscal year indicated that charges totaling \$447,641.91 applicable to the 1952 calendar year were paid from the 1954 fiscal year appropriation. It was further noted that invoices totaling \$429,415.88 applicable to the 1953 calendar year were approved for payment on May 10, 1954 by the Division of Tuberculosis and Sanatoria. However, the department records indicate that no entry was made on its books to encumber the 1953 charges as of June 30, 1954 because the 1954

fiscal year appropriation had been depleted by the payment of charges applicable to the 1952 calendar year. This action left a balance of only \$2,358.09 in the 1954 appropriation account and made it impossible to encumber the 1954 fiscal year liability.

New Chronic Disease Hospital - Illegal Contract: The previous audit report noted that the original contract for the New Chronic Disease Hospital in Boston was declared illegal by the Supreme Judicial Court on April 8, 1952. As of that date, payments totaling \$789,712.20 had been made to the contractor on account of work performed which amounted to \$1,422,959.43.

This matter was turned over to the Attorney General for disposition. Subsequently in September 1952 another contract was awarded to the same contractor after new bids had been received and in June 1953 the Attorney General requested that \$900,000.00 be withheld from the general contractor on future payments due on that new contract under the provisions of Section 17 of Chapter 29 of the Tercentenary Edition of the General Laws until final determination of the matter of the recovery of the payment on the first contract could be made.

On May 21, 1953 the Attorney General brought court action for the Department of Public Health against the contractor to recover payments on the first contract amounting to \$789,712.20. The contractor on July 27, 1953, brought a cross action suit against the Commonwealth to recover the unpaid balance for work performed on the original contract in the amount of \$633,247.23. On the date of the current audit it was noted also that the State Treasurer held two checks totaling \$1,000,000.00 payable to the above contractor for work performed on the new contract as Escrow Funds pending the outcome of the court action brought by the Attorney General to recover the payments made to the contractor on the illegal contract.

New Chronic Disease Hospital: It was noted that the second contract for the completion of the hospital was completed on June 30, 1954 as provided for in the contract.

Beginning with July 1, 1954, the maintenance appropriation accounts were carried in that hospital's office, but the special appropriation accounts remained in the office of the department.

UNIVERSITY OF MASSACHUSETTS

REPORT NO. 55-15

Delay in Transfer of Income Receipts to State Treasurer: The previous audit report commented that the transmittal of income receipts to the State Treasurer was delayed on several occasions. Inasmuch as this situation remained unchanged, attention is again called to Section 27 of Chapter 30 of the General Laws, Tercentenary Edition, which reads as follows:

"Except as otherwise expressly provided, all fees or other money received on account of the commonwealth shall be paid daily into the treasury thereof, but if in the opinion of the commission on administration and finance and the state treasurer the interests of the commonwealth require, payments may be made weekly in accordance with such rules and regulations as the state treasurer may prescribe."

It is, therefore, again recommended that steps be taken to comply with the aforementioned forthwith.

Used Employee Meal Tickets: It was noted that used employees' meal tickets of the past several years and which had not been voided in any manner were being stored in the office of the University Treasurer. It is urged that all such used meal tickets be destroyed after the annual audit.

Student Income: Students' bills are distributed from the Treasurer's office in advance of the beginning of each semester on the basis of a listing submitted by the University Registrar. In examining these bills, it was noted that alterations on paid bills and cancellations of complete bills bore no evidence of a formal approval by a properly authorized employee.

At present there appears to be no control account or register being maintained for charges to students and the amounts indicated in the income accounts are established from a detailed posting of the paid bills. It was also noted that advance deposits for tuition payments from prospective students were entered as tuition income as received.

It is, therefore, suggested that original bills be posted in detail to a students' register and that a control account be established for the various charges. Charges and

cancellations of all bills should be formally approved by a duly authorized employee, possibly the Registrar, and certainly those handling cash should not be allowed to authorize or to actually make any alterations. Advance receipt deposits should be segregated in a separate account until they may be applied to the respective account.

It is also suggested that possibly a list of all mail receipts reaching the Treasurer's office be prepared in duplicate - one copy being remitted to the cashier's cage while the duplicate could be used for posting purposes.

It is obvious that the control over the current income is most inadequate and, because of the expected increase in student enrollment, this matter poses a most urgent problem. It is, therefore, strongly recommended that the Comptroller's Bureau immediately review the accounting system of the University with particular reference to the handling and recording of all items of income.

Cashier's Records: The recording equipment in the cashier's section now comprises the following:

1. "Paid" Stamp - dated
2. Cash drawer
3. Change machine
4. Adding machine

The total income cash received by the cashier during this audit period totaled more than \$2,000,000.00 and all transactions were manually recorded.

It is recommended that possibly arrangements may be made for the acquisition of a business machine in the cashier's section so that proper internal control and efficient operation can be expeditiously maintained.

Room Rent: The Housing Office and the Dean of Women now assign rooms to students in the various dormitories. However, this rent is not set up as income until payment has been received and, therefore, it cannot be verified through potential income routines. In this connection, attention is directed to the fact that income for tuition and room rent for the period under audit totaled \$965,682.79, which is almost 50% of the entire income of the University for that period.

Self-Liquidating Dormitories and Buildings: Chapter 388 of the Acts of 1939, as amended, authorized the incorporation of the University of Massachusetts Building Association, a non-profit organization for the purpose of constructing, equipping and maintaining buildings for dormitories, commons and other uses connected with the State University. The corporation was also originally authorized to borrow money and issue bonds therefor not to exceed \$450,000.00. This law was amended by the Acts of 1945, 1946, 1948, 1950, 1952, 1953, and 1954 which progressively increased the original \$450,000.00 authorization to \$7,500,000.00.

To date of this audit, the following buildings which have been constructed and equipped by this association have been leased to the Commonwealth of Massachusetts:

<u>Unit</u>	<u>Term of Lease</u>	<u>Annual Rental</u>	<u>Accommodates</u>
Lewis and Butterfield	20 Yrs. 1940-60	\$30,000.00	303 Students
Chadbourne and Greenough	20 Yrs. 1946-66	\$31,250.00	314 Students
Mills	20 Yrs. 1947-67	\$24,500.00	157 Students
Brooks, Hamlin and Knowlton	24 Yrs. 1948-72	\$58,000.00	
		first 14 years	
		\$55,000.00	
		next 10 years	538 Students
University Apartments	25 Yrs. 1950-75	\$29,000.00	
		first 15 years	
		\$27,500.00	
		next 10 years	50 Apartments
Baker	25 Yrs. 1950-75	\$43,000.00	363 Students
Crabtree, Leach and Faculty Garage	25 Yrs. 1952-77	\$42,500.00	308 Students 18 Cars

Arnold	31 Yrs. 1953-84	\$28,000.00	215 Students
#13 (Under Construction)	26 Yrs. 1955-80	\$24,500.00	168 Students

The cost of the foregoing construction accounts for \$5,500,000.00 of the total bonds authorized.

Chapter 400 of the Acts of 1954, further authorized bonds totaling \$2,000,000.00 for the construction of a Student Union Building.

The buildings are on State-owned land which is leased to the association for \$1.00 per year per unit. The issuance of these bonds and the fiscal and legal matters pertaining to them have been managed by the Old Colony Trust Company of Boston, the State Street Trust Company of Boston, and the Worcester County Trust Company who function as trustees. Each, however, handles the separate issues of bonds together with all other related matters.

The leases with the University have been so written that the rents received will permit the complete liquidation of the outstanding bonds together with any other expenses which might accrue. The University furnishes heat, electricity and maintains the fixtures and the equipment in the respective buildings. It also provides janitorial services for the stairs and steps, grounds and laundry rooms. Insurance on Lewis and Butterfield Halls, and Chadbourne and Greenough Halls, by agreement, is paid by the University while the insurance on the other buildings is the responsibility of the association.

The statutes also provide that:

"Any building so leased shall become the property of the Commonwealth upon the payment in full of all obligations incurred."

This method of financing construction of state buildings is unique inasmuch as the costs are provided by the students and there appears to be no financial burden on the taxpayers of the Commonwealth.

The financial records which are maintained by the corporation were not examined. Copies of leases were reviewed.

It was intended that the corporation would lease the buildings to the University at a rental sufficient for the liquidation of outstanding bonds together with incidental expenses that may accrue, and it is the policy of the trustees to have rent cover both bond payments and maintenance cost. As of June 30, 1953, however, it was understood that the Mills and Baker dormitories show operating deficits of \$30,737.91 and \$2,577.18, respectively. The other buildings, however, show an excess of income over expenses totaling \$80,700.89, leaving a net excess of income over expenses of \$47,385.80.

The records for the fiscal year ended June 30, 1954 had not yet been posted so that the results of the operations to that date could not be determined.

DIVISION OF BUILDING CONSTRUCTION

REPORT NO. 55-16

General: This Division was established in accordance with the provisions of Chapter 612 of the Acts of 1953, which provides that all projects and appropriations of the Massachusetts Public Buildings Commission be transferred to the Division of Building Construction. This act further provides that the Director shall prepare and submit annually to the Budget Commissioner a report of all projects requested together with his recommendations for a long-range program for construction, by the Commonwealth, of buildings and related structures. This chapter further provides that the Director shall have control and supervision of all building construction projects, as defined in this chapter, which may be undertaken by the Commonwealth. Projects under the control and supervision of the Director include those, (1) which shall be financed in whole or in part by special appropriation, bond issue or federal funds; (2) the estimated cost of which shall exceed ten thousand dollars; and (3) which shall be so undertaken for construction of any building and appurtenant structures, facilities and utilities including original equipment or original furnishings thereof and any addition to, alteration, or repair of any existing building and appurtenant structure, facility and utility.

On October 29, 1953, the Division of Building Construction had special appropriations totaling \$4,442,733.44 under its control. During the period from October 29, 1953 to September 30, 1954, transfers of special appropriations to the Division from the various operating agencies totaled \$31,941,031.02. The special appropriations for the current fiscal year amounted to an additional \$31,988,174.00. Expenditures from these appropriations between October 29, 1953 and September 30, 1954 were \$1,397,267.30 and appropriation reversions were \$5,400.00. On September 30, 1954, the unexpended balance of these appropriations was \$66,969,271.16.

During the period from October 29, 1953 to October 18, 1954, forty-three construc-

tion contracts were awarded in the aggregate amount of \$14,503,816.31.

Special Appropriations: Several shortcomings in the handling of special appropriations by this agency were noted in connection with this audit, as follows:

1. Certain special appropriation accounts which are carried on the books of this Division were also entered on the records of the so-called operating agency. In one agency, seventy-one accounts were being carried by both departments.
2. On September 30, 1954, several appropriations still had not been picked up by the Division of Building Construction nor the operating agency, although this Division had signified its intention of handling the accounting for these appropriations.
3. In certain instances, appropriations balances were picked up by the the Division of Building Construction with incorrect balances. In this connection it is mentioned that balances taken from the Daily Statements of Transactions did not reflect the unallotted appropriations.
4. The following accounts were listed on the records of the Comptroller's Bureau as being under the supervision and control of this Division, but they were not being carried on its books as at September 30, 1954.

<u>Account No.</u>	<u>Description</u>
1715-22	Grafton State Hospital - Replacement of steam lines
1715-23	Grafton State Hospital - Renovation of heating, Pines "D"
1919-23	Tewksbury State Hospital - Painting water storage tank
4050-04	Department of Public Works - Division of Beaches, Comfort Stations
7704-12	State Airport Management Board - Hanscom Field improvements
7717-19	Medfield State Hospital - X-Ray equipment
7717-52	Wrentham State School - X-Ray equipment
7840-01)	Department of Natural Resources - Tramway repairs, Skinner State Park
7918-66	Westfield State Sanatorium - Ward H, renovation and repair
8254-02	Glass enclosures, Logan Airport
8254-03	Department of Natural Resources - Fire Tower, Mendon
8254-34	Department of Public Works - Installing lights, Salisbury Beach Parkway area
8321-00	Port of Boston Commission - Castle Island

5. The following accounts were being carried on the records of this Division, but were not so listed by the Comptrollers' Bureau:

<u>Account No.</u>	<u>Description</u>
1919-28	Tewksbury State Hospital - repairs and rewiring
7617-24	Walter E. Fernald State School - water supply, Templeton
1714-21	Gardner State Hospital - Replacement of steam line to Birch Cottage
7717-15	Grafton State Hospital, power switchboard and installation of turbine

In order to avoid future complications in these connections, it is suggested that:

1. More effective co-operation between this Division, the Comptroller's Bureau and the operating agencies be established;
2. Notification of transfers of special appropriations to and from this Division be arranged on a more systematic basis so that the operating agencies will be completely advised at all times;
3. More effective control over all appropriations under the control of this Division be exercised.

Special Accounts Payable: Chapter 453 of the Acts of 1954, as amended by Chapter 687 of the Acts of 1954, provided for the reappropriation of balances of certain appropriations which would have ordinarily expired on June 30, 1954. The amounts made available for the 1955 fiscal year were appropriated as maintenance appropriations whereas they had formerly been designated as special appropriations. Inasmuch as the encumbrances of these appropriations at June 30, 1954 were those of special appropriations with an indefinite life, they were established as Special Accounts Payable to distinguish them from maintenance accounts payable. It further had the effect of making these balances available until such time as they are liquidated.

Bid and Specification Deposits: On the date of audit, certified checks for bid and specification deposits, payable to the Commonwealth and amounting to \$124,844.80, were on hand in the office of this Division. Such money is not deposited, but is held until it is returned to whoever made the original deposit. Bid deposits are ordinarily held for short periods and are usually for larger amounts.

The aforementioned amount of bids and specification deposits which were on hand on October 18, 1954 included deposits made in December 1953. In this connection it is noted that the terms of the original deposits required that they be forfeited in the event that plans are not returned within a limited number of days, usually twenty, after the opening of the bids.

It is recommended that all deposits which should be forfeited because of the time element be turned over to the State Treasurer as income immediately. It is further suggested that the present system of handling such deposits be reviewed. Possibly a bank account should be maintained where this money may be deposited. Refunds could be made by check which, of course, would afford a more effective control.

PUBLIC BEQUEST COMMISSION

REPORT NO. 55-18

Accumulation of Funds: In this connection, the previous report stated:

"Section 28C of Chapter 6 of the Tercentenary Edition of the General Laws reads as follows:

'Section 28C. Distribution of Income - When and so long as the principal of said funds amounts to five hundred thousand dollars, said commission, with the approval of the governor and council, may distribute, in accordance with its rules and regulations relative thereto, the income from said fund to such worthy citizens of the commonwealth, as, in its opinion, by reason of old age and need, are entitled thereto. No man under sixty-five and no woman under sixty shall be deemed to be entitled to assistance from such fund.'

"It is noted that the total amount accumulated in this fund since September 1, 1929 is only \$4,050.53. Since no payments may be made from the fund until the principal amounts to \$500,000.00, it is apparent that unless contributions are increased to a far greater extent than those which have been received to date, there is little likelihood that the purpose for which the fund was created will ever be carried out."

There were no contributions received by this fund during the audit period.

DEPARTMENT OF MENTAL HEALTH

GENERAL DEPARTMENT

REPORT NO. 55-24

Work Done Not in Contract: The previous audit report commented on certain gross omissions and performances which appear to be beyond the scope of an awarded contract at one of the Mental Health hospitals. During this audit period, it was noted that the contractor concerned made whatever adjustments were necessary so that the terms in the original contract were finally complied with. There were no further funds paid to this contractor for any additional work performed.

Actually this contractor was not permitted to complete this contract. In this connection another contract for completion was awarded after competitive bid to another concern, at a price of \$27,448.00. This contract was to be finished by January 6, 1954. However, as of the date of audit, September 7, 1954, this project was still incomplete

and work on it has ceased. It was learned that the latter contractor contended that he could not obtain certain supplies and consequently alleged the material shortage as the reason for complete performance failure.

The Department notified the contractor's surety and on September 3, 1954 referred this matter to the Department of the Attorney-General as follows:

(COPY)

September 3, 1954

Mass. State Project M-212
Contract #2
Narragansett Colony Renovations
Walter E. Fernald State School
Templeton, Massachusetts

Hon. George Fingold
Attorney-General of the Commonwealth
State House
Boston, Massachusetts

Attention:
Assistant Attorney-General

Dear Sir:

Under date of June 24, 1953 a contract was entered into by, an individual doing business as Company of, with this Department for Contract #2, Renovations at the Narragansett Colony of the Walter E. Fernald State School at Templeton, Mass.

The work has not been completed and in our opinion, the contract has been abandoned.

Under date of July 7, 1954, the surety,, were called upon to complete the work. Under date of August 16, 1954, their attorneys,, were notified that unless operations were resumed within ten days from that date, the Attorney-General's office would be notified to take whatever steps might be necessary.

Article XIX of the Contract reads:

"If the Contractor shall be adjudged bankrupt, or if he shall make a general assignment for the benefit of his creditors, or if a receiver shall be appointed of his property, or if the work to be done under this contract shall be abandoned, or if this contract or any part thereof shall be sublet without the previous written consent of the Department, or if the contract or any claim thereunder shall be assigned by the Contractor otherwise than as herein specified, or if at any time the Architect shall be of the opinion, and shall so certify in writing to the Department, that the conditions herein specified as to the rate of progress are not fulfilled, or that the work, or any part thereof, is unnecessarily or unreasonably delayed, or that the Contractor has violated any of the provisions of this contract, the Department may terminate the contract and hold the Contractor and his sureties liable in damages as for a breach of contract by an abandonment thereof by him, or the Department may notify the Contractor to discontinue all work, or any part thereof; and thereupon the Contractor shall discontinue all work, or any part thereof; as the Department may designate and the Department may thereupon, by contract or otherwise, as it may determine, complete the work, or such part thereof, and charge the entire expense of so completing the work or part thereof, to the Contractor; and for such completion the Department, for itself or its contractor's, may take possession of and use or cause to be used in the completion of the work or part thereof any of such materials, animals, machinery, implements and tools of every description as may be found upon the line of said work."

Inasmuch as no action has been taken by the parties concerned to complete this contract, we are referring the matter to your office, and would appreciate your advising us of the steps to be taken.

Copies of letters of July 7, 1954, July 27, 1954 and August 16, 1954 are attached.

Very truly yours,

CDM:akd

Joseph P. Gentile
Second Assistant Commissioner

Comparison of Cash Collections Account of Patients' Board: A comparison follows showing certain information regarding some years during which this Department operated its Billing Section manually as compared with the current machine system. The years from 1944 to 1949 inclusive, show operations under the original system and the years 1950 to 1954 show operations under the machine system:

Fiscal Year	Collections	Salaries and Expenses	Collection Cost Per Dollar	Increases	
				Collections	Expenses
1944	\$1,051,835 36	\$ 38,047 40	.036	-	-
1945	1,076,294 41	38,063 06	.035	\$ 24,459 05	\$ 15 66
1946	1,152,697 91	41,175 57	.0357	76,403 50	3,112 51
1947	1,200,411 39	48,155 42	.0401	47,713 48	6,979 85
1948	1,247,263 80	50,378 63	.0404	46,852 41	2,223 21
1949	1,294,427 19	55,737 38	.0430	47,163 39	5,358 75
1950	1,379,730 07	85,411 56	.0610	85,302 88	29,674 18
1951	1,551,733 67	92,770 89	.0598	172,003 60	7,359 33
1952	1,829,698 97	103,326 75	.0565	277,965 30	10,555 86
1953	2,054,948 62	102,803 49	.0500	225,249 65	523 26*
1954	2,407,087 02	103,295 81	.0429	352,138 40	492 32

* Decrease

METROPOLITAN DISTRICT COMMISSION

REPORT NO. 55-25

Sewerage Division - Contract #156: An examination of this contract together with related correspondence indicated the following:

This contract concerned the construction of the "Framingham Trunk Interceptor - Natick and Framingham, Section 134." These bids were originally made on April 23, 1953 to construct this sewer line, and the lowest bid of record was in the amount of \$641,304.00. The bids were all rejected by vote of the Commission as indicated in their minutes under date of May 14, 1953.

In this connection, the reason advanced by the Chairman for non-acceptance of this set of bids was that the lowest bidder was at the time involved in a lawsuit against the Commission, which amounted to approximately \$200,000.00. Despite the fact that this suit was pending, correspondence was seen indicating that the Chief Engineer or the Sewerage Division had recommended the award of this contract to this low bidder.

While in the opinion of the Commission the low bid should have been rejected because of the existing law suit, it was also noted that the second or the third lowest bids were also rejected.

On May 21, 1953, this same project was readvertised with identical specifications, and the three lowest bidders were the same contractors who had submitted low bids in the first instance, except that the bids were all higher and the lowest bid now was in the amount of \$738,921.00, even though the bids were based on the same specifications. For obvious reasons, these bids were also rejected by vote of the Commission at a meeting held on June 18, 1953. A comparison of the three lowest bids in both instances follows:

First Bids	Second Bids
\$641,304 00	\$738,921 00
769,349 00	814,956 00
776,999 00	829,497 00

It will be noted that the difference between the lowest bids in the first and second series amounted to an increase of \$97,617.00.

Subsequent to this time, Contract #219 was advertised for bid. This contract referred to the same job as that previously bid on as Contract #156, except that certain changes were made in the specifications of this later contract. The length of piping in Contract #156 was to be 11,176 feet; the length under Contract #219 was to be only 8,180

feet long but 6 inches wider. It has been estimated that increase in width of the piping would add about \$50,000.00 to the cost, which should however be more than offset by the fact that there would be about 3,000 less linear feet of piping in length.

In this instance, four bids of record were submitted as follows:

\$743,446 90
813,297 45
894,890 30
909,919 10

Upon recommendation of the Chief Engineer of the Construction Division, the lowest bidder was not accepted upon the grounds that the bidder lacked financial responsibility and had no experience with this type of work. The second lowest bidder, therefore, in this third series of bids was awarded this contract at a cost of \$171,993.45 over the original low bid and at a cost substantially higher than the original bid submitted by him in his first bid.

Sewerage - Nut Island, Quincy: It is noted that this staff is presently engaged in compiling stock control cards on items in the inventory of supplies and equipment. It was considered impractical in connection with this examination to check the physical inventory to the book records, since maintenance of adequate inventory records has not been accomplished.

It was also noted, as a matter of information, that of the gas produced from sewerage disposal at this plant, a part is used to operate the machinery while approximately 500,000 cubic feet of surplus gas is burned off daily and thus wasted. It would seem that some use could be found for this valuable by-product.

BOARD OF REGISTRATION IN PHARMACY

REPORT NO. 55-26

Registration Renewals - Pharmacists and Assistant Pharmacists: In this connection, the previous audit report stated:

"At present a renewal application with a card attached is mailed to the registrant annually for renewal. When the application together with the card and the renewal fee is returned to the Board, the cash is recorded. The application and card are simultaneously numbered with a hand numbering machine and subsequently, the application is filed while the card is returned to the registrant.

"It is suggested that only the application for renewal be sent to the registrant and when the renewal fee is received, a prenumbered renewal certificate be issued to the registrant.

"It was further noted that renewal cards for Pharmacists and Assistant Pharmacists are issued annually for a \$2.00 fee to approximately 5,600 registrants. It is suggested in the interests of economy, etc., that consideration be given to issuing these renewals biennially at double the present fee."

To the date of this audit the renewals were still being handled in the same manner. However, while this audit was in progress steps were being taken to prenumber the forms as suggested, so that the forms for the 1956 calendar year will be printed in accordance with the foregoing recommendations.

As yet nothing has been apparently done with relation to the suggestion that all renewals be issued biennially and it is, therefore, again recommended that consideration be given to issuing renewals biennially at twice the present fee.

DIVISION OF FISHERIES AND GAME

REPORT NO. 55-27

Consultant Services: The prior audit report noted a continuously expanding use of consultants by this agency, and in this connection the report commented in part:

"The written agreements under which these consultants are hired contain only the signature of the consultant involved and bear no approval by any official or employee of the Commonwealth, and while in most instances the agreement specifies the date upon which the services are to start they make no mention of any date upon which services will terminate. We find that in some instances the traveling

"expenses and meals of certain consultants are paid by the Commonwealth in addition to the specified fee even though no such payments are provided in the original agreement."

These practices have continued unabated with the only exception that in some instances the actual form of contract for consultant services has been changed.

During the period of this audit, extending from March 15, 1954 to September 15, 1954, fifty-five consultants were paid a total of more than \$31,000.00, and most of them received payments of between \$10.00 and \$17.00 per day, with one consultant being paid \$30.00 per day, while a few were paid on an hourly basis.

An analysis of the amounts paid to consultants during the six-month audit period showed the following:

Under \$100.00	12
Between \$100.00 and \$500.00	22
Between \$500.00 and \$1,000.00	9
Over \$1,000.00	<u>12</u>
Total Used	<u>55</u>

Of the twelve consultants paid over \$1,000.00, one has now been hired as a regular employee, while the remaining eleven are currently under contracts extending from three months to one year. Their duties as defined in the revised contracts in every instance are identical and are described as follows:

"...gathering information and data relating to the program and work of the Bureau (of Wildlife Research and Management) for presentation to and consideration by the Division and for dissemination through various media to the general public."

This new description of duties was apparently prepared to meet the objections of the previous audit report, and it differs completely from former agreements with the same consultants, which had indicated that these same services had been contracted for as biological aides, consulting biologists, project leaders, laboratory technicians, creel census agents, etc. It is worthy of comment that only these individuals are being paid under this revised contract, and we find no new contracts for the remaining consultants, who are obviously continuing to be paid on the agreements in existence at the time of the previous audit.

Of the nine consultants paid between \$500.00 and \$1,000.00, three were laborers, while two were listed as biological aides. The four remaining were employed for various purposes.

Of the twenty-two consultants paid between \$100.00 and \$500.00, eleven were laborers and four were biological aides, while the rest were hired for various duties.

The attention of the Comptroller's Bureau is specifically called to the fact that their own publication, titled "Subsidiary Accounts and Expense Code Numbers for Budgetary Control", states without qualification under the section labeled "03 Services - Non-Employees":

"Laborers must be included under -01 or -02 subsidiary."

It is doubtful that many of the services contracted for by this agency and paid as consultants are proper charges against the Services - Non-Employee account. It is generally recognized that consultants are specialists hired for a specific project for a specified time or for certain specialized part-time work. Despite the fact that some of the present consultants' contracts are made for a specified time, many of those hired by this Division have had their agreements or contracts renewed over and over again, so that certain of these consultants have been working continuously over long periods of time.

Under such circumstances, the services being performed by most of these individuals are such that they should be performed by regular employees of the Commonwealth, appointed with due regard to Civil Service requirements and veteran preference statutes. On the other hand, if such normal services are required for comparatively brief periods, the attention of the Division is directed to the fact that thirty-day emergency appointments can be made legally and with complete independence.

The attention of the Comptroller's Bureau is also directed to the fact that travel expenses of certain consultants are being regularly paid from the Travel Account of this agency. Such expenses, if provided for in the consultants' contracts, should be paid only

from the Services - Non-Employee account.

It was also noted that, in one instance, a consultant has been provided with a state-owned car.

Appropriations to the various Services - Non-Employee accounts of this agency for the current fiscal year amount to \$48,594.00.

Telephone Charges: It was noted that sixteen employees of this division regularly submit their monthly home telephone bills to the division for reimbursement. Under this arrangement, the private telephone bills - including federal taxes and toll charges -- are paid by the employee concerned, and he is immediately reimbursed from the advance money of this agency for the cost of his bill less the cost of federal taxes and personal toll charges. It is worthy of comment that if these telephones are in reality used exclusively for official business of the Commonwealth, no federal tax could be assessed.

Except in one instance, these phones are in private homes and listed in the telephone directory only as private phones in the name of the employee concerned. This practice should be immediately discontinued. In those instances where it is determined that such service is used exclusively in business of the Commonwealth, the phone should be listed in the directory only in the name of the Commonwealth.

There appears to be no justification for such payments, except for those toll calls made in connection with the public activities of the Division of Fisheries and Game.

Federal Aid: The Division of Fisheries and Game received Federal Aid under the provisions of two Federal acts:

- (1) Pittman - Robertson Act (for Wildlife Restoration)
- (2) Dingell - Johnson Act (for Fish Restoration)

The Division is reimbursed by the Federal Government for 75% of its expenditures on projects approved under the provisions of these acts. Federal funds are apportioned to the various states on the basis of area and the number of license holders. Projects which are acceptable fall into the five following categories:

- (a) Land Purchase
- (b) Development
- (c) Research
- (d) Coordination
- (e) Maintenance

A comparison of Federal funds obligated to the Commonwealth of Massachusetts for Pittman - Robertson projects with the total amount obligated nationally is made in Schedule No. VII of this report. A review of this schedule indicates that, on a percentage basis, the Massachusetts Division of Fisheries and Game has consistently spent more of these funds on research than other states, while, at the same time, no land has been purchased for game purposes. This is entirely different from practices in other states. In the fiscal year 1952, twenty-eight states acquired land, while in 1953 thirty-two states acquired land under Pittman - Robertson funds. During the five fiscal years ending June 30, 1953, forty-four states acquired land from these funds. Massachusetts has made no land purchases under this program during the same five-year period.

Inland Fisheries and Game Fund: The balance in the Surplus Account of this fund on June 30, 1954 totaled \$666,423.80. This amount represents an increase of \$103,298.41 in the amount of Unappropriated Surplus over June 30, 1953.

The income of this fund is not segregated by the State Treasurer and is mingled with the regular cash of the treasury. It is recommended that the receipts of the Inland Fisheries and Game Fund be segregated and that surplus funds be invested to provide further revenue to the Fund.

DEPARTMENT OF AGRICULTURE

GENERAL DEPARTMENT

REPORT NO. 55-28

General: The principal purpose of the Dairy Bonding Law is ostensibly to protect the financial interests of Massachusetts producers in the event of certain contingencies. Bonds provided by this statute and their processing is controlled by a section within the Department of Agriculture which is known as the Dairy Bonding Section, operating directly under the control of the Commissioner of Agriculture.

Dairy Bonding - Trust Deposit Control Accounts: The Trust Deposit Control Accounts in the general ledger of this department consist of the following:

(1) Miscellaneous Trust Deposits - Notes secured by Savings Bankbooks, Stocks, Real Estate Mortgages, Life Insurance Policies, and Miscellaneous Stocks and Bonds.

(2) Bond Trust Deposits - U. S. Treasury Bonds. Miscellaneous Trust Deposits Control Account is charged with the excess of notes received over notes returned and is credited with the excess of notes returned over notes received. The Bond Trust Deposits Control Account is adjusted in accordance with necessary changes in bond coverage.

In connection with the foregoing, it is again suggested that control accounts for each different type of collateral now collectively included in the Trust Deposit Miscellaneous account be maintained in the general ledger, and that each such account be charged with the total value of notes received and be credited with the total value of notes returned.

Dairy Bonding - Producers Exempt from Security: The previous audit report stated:

"Section 42E of Chapter 94 of the Tercentenary Edition of the General Laws states as follows:

"If an applicant for a license under section forty-two A is a producer of milk or cream, or both, and, in addition to that produced by him, purchases per day from other producers not more than one hundred quarts of milk or its equivalent in cream or in milk and cream, as determined by the commissioner, and if the commissioner is satisfied from an investigation of the financial condition of the applicant that he is solvent and possessed of sufficient assets to reasonably assure compensation to his present and future creditors, the commissioner may, by an order filed in the department of agriculture, relieve such applicant from filing a bond or other security.

"It will be noted that the foregoing specifically relieves an applicant, under certain conditions, from filing a bond or other security upon an order filed by the Commissioner.

"It was noted, however, that during the audit period no such exemption orders were found to be on file in the department. Certain milk plant operators' applications for license were found bearing the initials of the Acting Commissioner, in the section reserved for Bond requirement, on the application with a notation 'None' or 'No Bond Required'. It is suggested that a proper order form be used for such exemptions and that they be available within the department for use in connection with future audits."

As there has been no change, attention is again called to this matter.

Milk Plant Operators' Licenses: In reconciling the potential income from the Milk Plant Operators' Licenses as issued with the actual income received, it was noted that there were 25 licenses assigned but not issued for which the cash had been received and transferred to the State Treasurer. These licenses were still pending for the 1954 license year as of the date of audit and the operators concerned had apparently continued to do business throughout the year without actually having on hand the necessary licenses. Cash was received for these licenses between January 14, 1954 and July 16, 1954.

From information available within the Milk Bonding Section, of the foregoing dealers 15 were classified as being held because of necessary increases in their respective bond requirements totaling \$10,870.00, 9 were under investigation and 1 was an out-of-state dealer. While this audit was in progress, it was noted that only 9 dealers of the aforementioned had been issued licenses.

With respect to the out-of-state dealer, it is suggested that the fee paid be refunded if it is determined that he cannot be licensed. It is further suggested that immediate action be taken to have all these dealers fulfill their necessary obligations.

The previous audit report stated:

"It is suggested that licenses of Milk Plant Operators discontinuing business be returned to the Bonding Section where they should be left on file."

Since the above situation still exists on the present date of audit, attention is again

directed to a compliance with the suggested procedure.

Agricultural Purposes Fund: This fund was created under authority of Chapter 390 of the Acts of 1947 and Chapter 319 of the Acts of 1948. Accounts for it, however, are not carried in the general ledger of this department. Appropriations from this fund for the 1954 and 1955 fiscal years totaled \$85,000.00 and \$90,760.00 respectively. Receipts totaled \$125,181.63 in 1954 and \$103,263.21 in 1955.

LAKEVILLE STATE SANATORIUM

REPORT NO. 55-33

Interest on Patients' Fund: As of the date of audit the interest account in the Patients' Fund ledger indicated a balance of \$67.41. This account represents the interest that has accumulated on the savings bank account of this fund.

It is again recommended that this amount be remitted to the State Treasurer as miscellaneous income and subsequent accumulations be remitted currently.

Patients' Accounts: It was again noted that more than 50% of the accounts in this fund belong to former patients.

It is recommended that an effort be made to locate the rightful owners of these funds so that these accounts may be disposed of.

LEMUEL SHATTUCK HOSPITAL

REPORT NO. 55-34

General: Attention is directed to the fact that originally it was anticipated that this hospital would be opened on July 1, 1954 to receive patients to approximately 25% of its capacity of 600. It was further expected that at the end of each three months thereafter, arrangements would be made to accept 25% additional and at the end of nine months the hospital would be operating at full capacity.

However, it was noted that as of the audit date, September 20, 1954, there still had not been a patient admitted, yet there were 298 employee positions filled out of a personnel quota of 574.

In this connection, analysis of the pay roll for the week ending September 18, 1954 indicated the following:

<u>Department</u>	<u>Number of Employees</u>	<u>Cost</u>
Medical	10	\$ 1,657 60
Administrative	55	2,948 05
Kitchen and Dining Room	31	1,444 66
Domestic Services	54	2,422 15
Ward Services	121	5,731 44
Industrial	-	-
Engineer	22	1,411 46
Repairs	1	63 21
Garage and Grounds	4	154 01
Totals	<u>298</u>	<u>\$15,832 58</u>

Attention is further directed to the fact that the total disbursements for the Ward Services, including nurses and attendant nurses, for the period from July 1, 1954 to September 20, 1954, despite the fact that there were no patients, was \$33,133.85. An analysis by months follows:

	<u>Number of Ward Employees on Pay Roll</u>	<u>Amount</u>
July 1954	39	\$ 8,548 32
August 1954	64	11,499 36
September 1 - 20, 1954	121	13,086 17
		<u>\$33,133 85</u>

Materials and Supplies: Considerable difficulty developed in taking the physical inventory of materials and supplies in the storeroom which was controlled by the materials and supplies ledger. It was noted that articles which had been purchased from capital out-

lay funds were not being carried on the stock ledgers. In addition, items that had been purchased through regularly appropriated funds were not represented on the stock ledgers even though they were in the same storeroom. It was also noted that the storeroom personnel appeared indecisive as to which articles were stock items and which were capital outlay items; and, as a result, items purchased with capital outlay funds were being requisitioned and charged to stock while regular maintenance articles were not being charged against stock ledger accounts.

Attention is also directed to the fact that because the refrigerators are all located in the main kitchen, perishable items such as meats, fish, eggs, milk, fruit and vegetables, etc., are issued immediately to the kitchen by the storekeeper when they are received. Of course, this practice results in complete lack of control over these materials and supplies.

Because of the foregoing, it is suggested that the entire materials and supplies routine be reviewed by the Comptroller's Bureau.

BOSTON PSYCHOPATHIC HOSPITAL

REPORT NO. 55-35

Maintenance Charges for Rental of Rooms: It is still practically impossible to establish the potential income of employees' room rents. The institution treasurer maintains a card file, but it is not complete. Certain record cards maintained by the hospital housekeeper are also inadequate, as they show only the room number and name or names of occupants without any indication of the dates of entering or leaving. In this connection it was noted that the treasurer now has available the required pay roll deduction slips for these items.

Meal Ticket Sales: The cash book indicates sales of meal tickets to employees totaling \$5,773.50 during the audit period. The records further indicate that tickets valued at \$9,594.00 were issued to the Nursing Office for free distribution to student nurses. These tickets were turned over to the institution dietitian, who is advised in advance of the number of student nurses who are entitled to free meals. Such tickets are stamped "Volunteer" and no further record is kept of them. It is suggested that complete records be maintained in the future for all "free" tickets.

BOARD OF REGISTRATION IN CHIROPODY (PODIATRY)

REPORT NO. 55-38

Expenditures: Section 120 of Chapter 13 of the Tercentenary Edition of the General Laws states in part as follows:

"...that the salaries and expenses of the members of the board, and the expenses of the board, shall not be in excess of the receipts for registration and from other sources received by the state treasurer from the board."

In this connection it is noted that there was an excess of expenditures and encumbrances over receipts for the fiscal year ending June 30, 1954 in the amount of \$4,108.85

VETERANS' BONUS COMMISSION

REPORT NO. 55-39

Volume of Transactions: As of the close of business September 28, 1954, 106,833 applications for bonus payments had been received at the commission office and 100,011 applications amounting to \$26,750,500.00 had been paid. The remaining 6,822 applications were in the process of being acted upon, of which 4,994 were being held for irregularities or awaiting additional necessary information.

Accounts Receivable - Bonus Overpayments: The records of the Commission listed a total of \$738.00 in this category to be recovered from six persons. Included in this total is an amount of \$200.00 due from a survivor who cashed the \$300.00 bonus check of a deceased veteran without first obtaining the necessary waivers from two other survivors.

The records further indicate 54 cases of overpayments totaling \$8,100.00, of which \$7,362.00 was returned by veterans or was recovered by the Commission and the Attorney General. One account with a balance of \$235.00 still not recovered is in the hands of the Attorney General to whom it was sent for action on March 24, 1954.

Several overpayments have been returned voluntarily by veterans. The previous audit report had suggested a recheck of all applications to determine the accuracy of the authorizations for payments. It is understood that such a recheck is now in progress.

The previous audit report further called attention to two checks which had been issued by the State Treasurer in excess of the amounts indicated by the applications, as follows:

<u>Application Number</u>	<u>Amount of Overpayment</u>
3259	\$200 00
5372	100 00

Recoveries of \$125.00 on No. 3259 and \$30.00 on No. 5372 have been made during the period of this audit. The balances are included in the total Accounts Receivable as of September 28, 1954.

It is suggested that information on any subsequent similar items be supplied to this Commission by the Department of the State Treasurer so that steps could be immediately taken to effect repayment.

GARDNER STATE HOSPITAL

REPORT NO. 55-42

Certain Minutes of Trustees Meetings Not on File at Institution: In connection with a review of the minutes of the meetings of the trustees of this institution for the audit period, it was noted that none were available from April 14, 1954 to October 1, 1954, although it was understood that meetings were held in May, June and September 1954. These minutes are prepared by one of the trustees who acts as the secretary. It is understood that these minutes would be made available.

It is therefore recommended that in the future all minutes be prepared and placed in the institution files within a reasonable time after the meetings.

Patients' Fund - Verification of Savings Account Balances: On date of audit there were several savings bank accounts in this and other funds whose balances were included in the cash balances of record at this institution. In this connection it was noted that the various pass books had not been sent to the banks for verification for a number of years, although the dividend checks on these accounts had been mailed to the institution regularly. It was suggested to the institution treasurer that the pass books be mailed together with the request for confirmation of the balances in order that entries would be currently made in these books.

Patients' Fund - Check for Funds of Deceased Patients Sent To the Department of Mental Health Not Cashied: On December 10, 1953 letters were written to the Department of Mental Health by the Superintendent of this institution requesting advice in the matter of disposition of the funds of six patients who had died and left a total of \$20.72 in cash. The replies from the business agent of the Department indicated that check should be forwarded for that amount and on January 26, 1954 a check for that amount was drawn on the patients' fund and sent to the Department of Mental Health. However, the check was returned with a letter from the business agent of the Department on February 2, 1954 stating that this check should be held until instructions for the disposition of these funds was received from the Department.

On April 21, 1954 the Superintendent again wrote to the business agent calling attention to the fact that the institution was waiting for further instructions and on April 23, 1954 a telephone call from the business agent's office instructed the institution treasurer to hold the check until she heard from the Department.

There has been no activity in regard to this matter from April 23, 1954 to the date of audit, and the check originally written is still in the files of the institution treasurer's office.

It is recommended that steps be taken to dispose of this matter forthwith.

Patients' Fund - Deceased Patients' Funds Not Transferred to the Department of Mental Health: It was noted that there were 35 individual's accounts totaling \$923.75 which were more than 30 days old and had not been remitted to the Department of Mental Health or otherwise disposed of. In this connection, it was noted that these included 26 totaling \$823.66 which were at least 30 days old on the date of the previous examination.

This matter was called to the attention of the institution treasurer, and it was understood that a review will be made of all funds belonging to deceased patients and these accounts coming within this category will be processed and forwarded to the Department of Mental Health.

COMMISSION ON ADMINISTRATION AND FINANCE

REPORT NO. 55-43

Annual Report: Attention is directed to the provisions of Section 33 of Chapter 7 of the General Laws which states as follows:

"The commission shall, annually on or before the second Wednesday in January, submit to the general court a printed abstract of its annual report, exhibiting a full and accurate statement of the financial condition and transactions of the commonwealth for the preceding fiscal year ..."

This statute distinctly calls for a "full and accurate statement of the financial condition ... of the commonwealth".

Attention is also directed to the provisions of Section 34 of the same chapter, which states as follows:

"Such report shall contain a summary statement of the receipts into, and payments from, the treasury of the commonwealth for the preceding fiscal year; a detailed statement of such receipts and expenditures, including obligations, whether paid or unpaid, ..."

This section requires that the annual report of the Commission shall include obligations of the Commonwealth, "whether paid or unpaid" as of the date of the report and, therefore, the Commission is required to report the financial condition of the Commonwealth and include in that report a statement of all unpaid obligations.

In this connection attention is further directed to the fact that the abstract of the annual report issued by this Commission as House No. 500 does not comply with the provisions of the law, since unpaid obligations of the Commonwealth, which on June 30, 1954 totaled more than \$39,000,000.00 had not been included.

Such obligations not included in this abstract represent in most instances reimbursements due certain cities and towns of the Commonwealth for funds actually expended locally. A list of these items by appropriation classifications and their respective unencumbered balances brought forward to the 1955 fiscal year follow:

**UNPAID OBLIGATIONS OF THE COMMONWEALTH NOT RECORDED ON BOOKS
AS OF JUNE 30, 1954**

Department	Appropriation Item	Period Reimburse- sable	Fund	1954	
				Obligations Not Encumbered	Unencumbered Balance Of Appropriation Brought Forward
Judiciary	Suffolk County Court	10/1/53-			
	House - Expenses	6/30/54	General	\$ 138,911 56	\$ 2,488 33
Treasury	State Share of State				
	Employees' Retirement System	Deficit-			
		12/31/53	General	1,083,085 41	547,537 54
Education	State Share of				
	Teachers' Retirement System	Deficit-			
		12/31/53	General	109,333 35	106,971 10
Education	School Superintendents in Small Towns				
		7/1/53-			
		6/30/54	General	183,463 23	3,010 01
Education	Transportation of Pupils				
		7/1/53-			
		6/30/54	General	2,921,508 82	06
Education	Vocational Education				
		9/1/50-			
		8/31/51	General	14,192 48)	14,595 10
Education	Vocational Education				
		9/1/51-			
		8/31/52	General	10,066 02)	

Education	Vocational Education	9/1/52-8/31/53	General	\$ 3,926,569 64)	
Education	Vocational Education	9/1/53-6/30/54	General	3,272,141 35)*	
Education	Adult English Speaking Classes	9/1/53-6/30/54	General	77,086 25*\$	783 53
Education	Outside Schools Transportation	9/1/52-8/31/53	General	79,489 00)	
Education	Outside Schools Transportation	9/1/53-6/30/54	General	66,240 83)*	
Education	Pensions to Retired Teachers	7/1/52-6/30/53	General	1,404,434 02)	16,200 12
Education	Pensions to Retired Teachers	7/1/53-6/30/54	General	1,400,000 00)*	
Public Welfare	Aid to Dependent Children	7/1/53-6/30/54	General	5,895,073 93	24,460 26
Public Welfare	Aid to Totally Disabled Persons	1/1/54-6/30/54	General	1,972,020 03	133,719 18
Public Welfare	Tuition and Transportation of Children	7/1/52-6/30/53	General	14,343 19)	15,138 49
		7/1/53-6/30/54	General	550,000 00)*	
Public Health	Tubercular Patients in Certain Hospitals	1/1/53-12/31/53	General	429,415 88)	2,358 09
		1/1/54-6/30/54	General	214,707 94)*	
Veterans' Services	Veterans' Benefits	2/1/54-6/30/54	Veterans' Services	1,689,490 73	44
Public Welfare	Grants in Aid	2/1/54-6/30/54	Old Age Assistance	13,863,129 04	2,096,034 39
				<u>\$39,314,702 70</u>	<u>\$2,963,296 64</u>

* Estimates based on most recent completed fiscal year payments to cities and towns.

Reimbursement - Suffolk County Court House - Maintenance: Section 6 of Chapter 474 of the Acts of 1935 commits the Commonwealth to reimbursing the City of Boston for 30% of the annual maintenance and operation costs of the Suffolk County Court House. These expenses are paid in the first instance with City of Boston funds.

An examination of the expenditures charged to the appropriation account for "Reimbursement - Suffolk County Court House - Maintenance" indicates that reimbursements totaling \$134,557.97, applicable to the previous fiscal year, have been paid from the 1954 fiscal year's appropriation. It was further noted that reimbursements totaling \$138,911.56 for the period October 1, 1953 to June 30, 1954 remained unpaid as of June 30, 1954. On July 1, 1954 the unexpended balance of the previous year's appropriation in the amount of \$2,488.33 was brought forward, but no record of the liability noted appears in the abstract

of the 1953 - 1954 annual report of the Commission on Administration and Finance.

Annuity Reserve Fund - Deficiency - State Employees' Retirement System: An examination of the annual report on the Condition of the State Employees' Retirement System for the year ended December 31, 1953, which was prepared by the State Board of Retirement, indicated that a deficiency of \$1,083,085.41 existed in the Annuity Reserve Fund on that date. Section 27, 2(c) of Chapter 32 of the Tercentenary Edition of the General Laws provides for the payment of such deficiencies from the Pension Fund, as follows:

"If the total amount so credited to the annuity reserve fund is less than the total amount of the annuity reserve so determined for such system, the deficiency shall be made up to the extent possible, by transferring from the pension fund of such system and crediting to the annuity reserve fund thereof an amount equal to such deficiency or such lesser amount, as determined by the actuary, as shall be available and not required for current pension payments."

It was noted that the liability resulting from this requirement does not appear as an encumbrance as of June 30, 1954 in the Appropriation Account, "State Board of Retirement - Pensions" from which the deficiency is payable.

On July 1, 1954 the unexpended balance of this appropriation of \$547,537.54 was brought forward, but no record of the liability appears in the abstract of the 1953 - 1954 annual report of this Commission.

Annuity Reserve Fund - Deficiency - Teachers' Retirement System: It was also noted that the annual report on the Condition of the Teachers' Retirement System for the year ended December 31, 1953, which had been prepared by the Teachers' Retirement Board, indicated that a deficiency of \$109,333.35 existed in the Annuity Reserve Fund on the above date. In this connection, Section 22, 2 (d) of Chapter 32 of the Tercentenary Edition of the General Laws provides for the payment of such deficiencies from the Pension Fund, as follows:

"If such balance is less than the total amount of such annuity reserve, an amount equal to such deficiency shall, to the extent not included in any deficiency being made up under the provisions of paragraph (c) of this subdivision, be similarly transferred as of such next following September thirtieth from the pension fund to the annuity reserve fund."

It was noted that the liability incurred in this connection does not appear as an encumbrance as of June 30, 1954 in the Appropriation Account, "Teachers' Retirement System - State Share" from which this deficiency is payable. On July 1, 1954, the unexpended balance of this appropriation in the amount of \$106,971.10 was brought forward, but no record of the liability appears in the abstract of the 1953 - 1954 annual report of this Commission.

School Superintendents in Small Towns: Section 65 of Chapter 71 of the Tercentenary Edition of the General Laws provides for partial reimbursement to small towns by the Commonwealth for salaries paid to Superintendents of Schools.

An examination of the expenditures charged to the 1954 fiscal year's appropriation for "School Superintendents in Small Towns - Reimbursement" indicates that reimbursements totaling \$181,989.99, applicable to the 1953 fiscal year, were paid from the 1954 fiscal year appropriation. It was further noted that reimbursements totaling \$183,463.23 for the entire 1954 fiscal year remained unpaid as of June 30, 1954. On July 1, 1954, the unexpended balance of the previous year's appropriation in the amount of \$3,010.01 was brought forward, but no record of the liability appears in the abstract of the 1953 - 1954 annual report of the Commission.

Transportation of Pupils: Section 8A of Chapter 71 of the General Laws provides for partial reimbursement to certain towns by the Commonwealth for transportation of certain pupils.

An examination of the expenditures charged to the 1954 fiscal year's appropriation account for "School Transportation - Reimbursement" indicates that reimbursements totaling \$2,547,683.94, applicable to the 1953 fiscal year, were paid from the 1954 fiscal year's appropriation. It was further noted that reimbursements totaling \$2,921,508.82 for the entire 1954 fiscal year were still unpaid as of June 30, 1954. On July 1, 1954,

the unexpended balance of the previous year's appropriation, amount to \$.06, was brought forward, but no record of the liability indicated appears in the 1953 - 1954 annual report of this Commission.

Vocational Education: Sections 9, 10, 11 and 12 of Chapter 74 of the General Laws provides for partial reimbursement to certain cities and towns by the Commonwealth for the expenses of maintaining Agricultural and Industrial Vocational Schools.

An examination of the expenditures charged to the 1954 fiscal year appropriation account for "Vocational Education - Reimbursement" indicates that reimbursements totaling \$3,772,362.90, applicable to the school year September 1, 1951 to August 31, 1952, were paid from the 1954 fiscal year appropriation. It was further noted that reimbursements amounting to \$7,222,969.49 applicable to the following periods were still unpaid as of June 30, 1954:

<u>Period</u>	<u>Amount</u>
September 1, 1950 to August 31, 1951	\$ 14,192 48
September 1, 1951 to August 31, 1952	10,066 02
September 1, 1952 to August 31, 1953	3,926,569 64
September 1, 1953 to June 30, 1954	
(Estimate based on 10/12ths of 1952-53 school year expenditures)	3,272,141 35
	<u>\$7,222,969 49</u>

On July 1, 1954, the unexpended balance of the previous year's appropriation, totaling \$14,595.10, was brought forward, but no record of the aforementioned liabilities appear in the abstract of the 1953 - 1954 annual report of this Commission.

Adult English Speaking Classes: Section 10 of Chapter 69 of the General Laws provides for partial reimbursement to certain cities and towns by the Commonwealth for Adult English Speaking Classes.

An examination of the expenditures charged to the 1954 fiscal year appropriation account for "Adult English Speaking Classes - Reimbursement" indicates that reimbursements totaling \$94,216.47, applicable to the school year September 1, 1952 to August 31, 1953, had been paid from the 1954 fiscal year appropriation. It was further noted that reimbursements totaling \$77,086.25 for the period September 1, 1953 to June 30, 1954 still remained unpaid as of June 30, 1954. On July 1, 1954, the unexpended balance of the previous year's appropriation, which amounted to \$783.53, was brought forward. However, no record of the foregoing liability appears in the abstract of the 1953-1954 annual report of this Commission.

Outside Schools Transportation: Section 8A of Chapter 74 of the General Laws provides for partial reimbursement to certain cities and towns by the Commonwealth for transportation of pupils attending State-aided Agricultural and Industrial Vocational Schools.

It was noted that the expenditures charged to the 1954 fiscal year's appropriation for "Outside Schools Transportation - Reimbursement" included reimbursements totaling \$61,110.92 applicable to the school year September 1, 1951 to August 31, 1952. It was further noted that reimbursements amounting to \$145,729.83 for the period September 1, 1952 to June 30, 1954 were still unpaid as of June 30, 1954, as follows:

<u>Period</u>	<u>Amount</u>
September 1, 1952 to August 31, 1953	\$ 79,489 00
September 1, 1953 to June 30, 1954	
(Estimate based on 10/12ths of 1952-53 school year expenditures)	66,240 83
	<u>\$145,729 83</u>

No record of the foregoing liability appears in the abstract of the 1953 - 1954 annual report of this Commission.

Pensions to Retired Teachers: Section 20, 2 (c) of Chapter 32 of the Tercentenary Edition of the General Laws provides for partial reimbursement to certain cities and towns by the Commonwealth for pensions to retired teachers.

In examining the expenditures charged to the 1954 fiscal year appropriation account for "Reimbursements to Cities and Towns for Pensions" it was noted that reimbursements totaling \$1,458,799.88, applicable to the two fiscal years ended June 30, 1952, had been paid from the 1954 appropriation. It was further noted that reimbursements of \$2,804,434.02 applicable to the period July 1, 1952 to June 30, 1954 were still unpaid as of June 30, 1954, as follows:

<u>Period</u>	<u>Amount</u>
July 1, 1952 to June 30, 1953	\$1,404,434.02
July 1, 1953 to June 30, 1954 (Estimate based on 1952-53 expenditures)	<u>1,400,000.00</u>
	<u>\$2,804,434.02</u>

On July 1, 1954, the unexpended balance of the previous fiscal year's appropriation totaling \$16,200.12 was brought forward. However, no record of the aforementioned liabilities appears in the abstract of the 1953 - 1954 annual report of the Commission.

Aid to Dependent Children: Section 6 of Chapter 118 of the General Laws provides for partial reimbursement to cities and towns by the Commonwealth as Aid to Dependent Children.

The expenditures charged to the 1954 fiscal year's appropriation account for "Reimbursement - Aid to Dependent Children" indicates that reimbursements totaling \$5,868,762.80, applicable to the 1953 fiscal year, were actually paid from the 1954 appropriation. It was further noted that reimbursements of \$5,895,073.93 for the entire 1954 year were still unpaid as of June 30, 1954. On July 1, 1954, the unexpended balance of the previous year's appropriation, totaling \$24,460.26, was brought forward. However, no record of the liability is shown in the abstract of the 1953 - 1954 annual report of this Commission.

Aid to Totally Disabled Persons: Section 20 of Chapter 118D of the General Laws provides for partial reimbursement to cities and towns by the Commonwealth as Aid to Totally Disabled Persons.

In examining the expenditures charged to the 1954 fiscal year's appropriation for "Reimbursement - Aid to Totally Disabled Persons" it was noted that the reimbursements included \$755,438.49, applicable to the previous fiscal year, had been paid from the 1954 appropriation. It was further noted that reimbursements totaling \$1,972,020.03 for the period from January 1954 to June 1954 remained unpaid as of June 30, 1954. On July 1, 1954, the unexpended balance of the previous year's appropriation in the amount of \$133,719.18 was brought forward, but no record of the liability is indicated in the abstract of the 1953 - 1954 annual report of this Commission.

Grants in Aid: Section 8 of Chapter 118A of the General Laws provides for partial reimbursement to cities and towns by the Commonwealth for assistance to certain aged persons.

In examining the expenditures charged to the 1954 fiscal year's appropriation for "Grants in Aid - StateShare" it was noted that the reimbursements included \$13,373,942.53, applicable to the previous fiscal year, had been paid from the current appropriation. It was further noted that reimbursements totaling \$13,863,129.04 for the period from February 1954 to June 1954 were still unpaid as of June 30, 1954. On July 1, 1954, the unexpended balance of the previous year's appropriation in the amount of \$2,096.39 was brought forward, but no record of the liability is shown in the abstract of the 1953 - 1954 annual report of this Commission.

Tuition and Transportation of Children: Section 7 of Chapter 76 of the General Laws provides for complete reimbursement to cities and towns by the Commonwealth for tuition in the public schools, including transportation to and from school, of children boarded by the Department of Public Welfare.

An examination of the expenditures charged to the current year's appropriation for "Tuition and Transportation of Children - Reimbursement" indicates that reimbursements totaling \$539,861.51, applicable to the previous year, had been paid from the 1954 fiscal year appropriation. It was further noted that reimbursements estimated at \$564,343.19 for the 1953 and 1954 fiscal years remained unpaid as of June 30, 1954, as follows:

<u>Period</u>	<u>Amount</u>
July 1, 1952 to June 30, 1953 6 Cities and Towns	\$ 14,343 19
July 1, 1953 to June 30, 1954, 265 Cities and Towns (Estimate based on 1953 fiscal year expenditures)	550,000 00
	<u>\$564,343 19</u>

On July 1, 1954, the unexpended balance of the previous year's appropriation totaling \$15,138.49 was brought forward, but no record of the aforementioned liabilities appears in the abstract of the 1953 - 1954 annual report of this Commission.

Tubercular Patients in Certain Hospitals: Section 76 of Chapter 111 of the General Laws provides for subsidies to cities and towns by the Commonwealth for the care of tubercular patients in certain hospitals.

An examination of the expenditures charged to the 1954 fiscal year's appropriation for "Subsidies for Tubercular Patients" indicates subsidies totaling \$447,641.91, applicable to the 1952 calendar year, had been paid from the 1954 fiscal year's appropriation. It was further noted that subsidies totaling \$644,123.82 for the period from January 1, 1953 to June 30, 1954 were still unpaid as of June 30, 1954, as follows:

<u>Period</u>	<u>Amount</u>
January 1, 1953 to December 31, 1953	\$429,415 88
January 1, 1954 to June 30, 1954 (Estimate based on 50% of the 1953 calendar year expenditures)	214,707 94
	<u>\$644,123 82</u>

As of July 1, 1954, the unexpended balance of the previous year's appropriation amounting to \$2,358.09 was brought forward, but no record of the aforementioned liabilities is shown in the abstract of the 1953 - 1954 annual report of this Commission.

Veterans' Benefits: Section 6 of Chapter 115 of the General Laws provides for partial reimbursement to cities and towns by the Commonwealth for Veterans' Benefits.

The expenditures charged to the 1954 fiscal year appropriation account for "Reimbursements - Veterans' Benefits" indicates that reimbursements totaling \$1,658,482.20, applicable to the 1953 fiscal year, had been paid from the 1954 fiscal year's appropriation. It was further noted that reimbursements totaling \$1,689,490.73 for the period from February 1954 to June 1954 were still unpaid as of June 30, 1954.

As of July 1, 1954, the unexpended balance of the previous year's appropriation in the amount of \$.44 was brought forward, but no record of the foregoing liability is shown in the abstract of the 1953 - 1954 annual report of this Commission.

Overstatement of Surplus - General Fund: An examination of the abstract of the annual report issued by this Commission as House No. 500 indicates that the Surplus Account balance as of June 30, 1954 in the amount of \$8,698,333.84, as appearing in Statement XI "General Fund - Comparative Statement of Surplus for 1954 and 1953" was overstated in the amount of \$1,473,901.52 because of an incorrect distribution of income tax receipts by the Department of Corporations and Taxation in the 1954 fiscal year. This distribution also resulted in an understatement of the same amount in the Income Tax Fund balance as of June 30, 1954 which is distributed to the cities and towns of the Commonwealth after deduction for administrative costs and other statutory deductions.

Highway Fund: In contrast to the manner in which the Commission failed to report the status of the several appropriations heretofore enumerated, it appears to have substantially understated the financial condition of the Highway Fund as of June 30, 1954.

In reviewing the abstract of its annual report (House No. 500) for the fiscal year ended June 30, 1954, it was noted that Federal Aid Funds available to the Highway Fund totaling \$27,865,147.93, to be paid upon the completion of construction of certain projects from allocations granted by the Federal Government prior to June 30, 1954, were omitted from Schedule XIII "Highway Fund - Comparative Statement of Surplus for 1954 and 1953". This schedule indicated a surplus of \$10,576,845.56 in the Highway Fund as of June 30, 1954. This surplus as reported resulted after the inclusion of Reserve for Balances Forwarded

of \$22,912,588.70 in Statement X "Highway Fund - Balance June 30, 1954" as a deduction from Total Cash and Securities. An analysis of this Reserve account as of June 30, 1954 indicated that it was comprised of outstanding encumbrances totaling \$10,486,290.65 and of unencumbered appropriation balances totaling \$12,426,298.05. Since Federal Aid Funds available to the Commonwealth on June 30, 1954 are also applicable to both the current and future fiscal periods, it appears inconsistent for the Commission to include these unencumbered appropriation balances in its financial statement while omitting Federal Aid Funds amounting to \$27,865,147.93 from the same statement.

The status of the Federal Aid Funds as reported by the Department of Public Works as of June 30, 1954, follows:

Federal Aid Funds Available July 1, 1953	\$26,917,032 63
Add:	
1955 Apportionment for Commitment in 1954 Fiscal Year	10,224,769 00
	\$37,141,801 63
Deduct:	
Federal Aid Funds Collected in 1954 Fiscal Year	9,276,653 70
	<u>\$27,865,147 93</u>

Analysis of Federal Aid Funds Available

June 30, 1954

Current:	
Accounts Receivable (Completed Construction)	\$ 570,577 21
Deferred:	
Contract Agreement (Incompleted Construction)	17,357,496 87
Projects in Plan, Specification and Estimate Stage	824,051 50
Projects in Program Stage	6,689,150 50
Unprogrammed	2,423,871 85
Total Federal Aid Funds Available	<u>\$27,865,147 93</u>

Annual Report - Valuation of Securities at Market Value: Section 35 of Chapter 7 of the Tercentenary Edition of the General Laws requires that the annual report of the Commission shall include the following:

"... In making such report the commission shall estimate the value of securities at their market value at the time of making its report ..."

On the completion date of this audit, the annual report was still not in print, but it was noted that the abstract of the annual report for the fiscal year ended June 30, 1954 did not include this information.

Payments for "Ordinary Borrow" on Contract C-1, D-1, H-1, - John F. Fitzgerald Expressway: An examination of payments made on the contracts awarded for the construction of Sections C-1, D-1 and H-1 of the John F. Fitzgerald Expressway indicates that the Commonwealth has paid the sum of \$113,836.04 to a contractor for 122,638 cubic yards of debris free of inflammable material resulting from the demolition of buildings, as follows:

Contract	Item	Description	Cubic Yards	Price	Amount
#4824 (C-1)	A-6-1(a)	Ordinary Borrow	22,465.2	\$1.50	\$ 33,697 80
#5071 (D-1, H-1)	A-6-1(a)	Ordinary Borrow	100,172.8	.80	80,138 24
			<u>122,638</u>		<u>\$113,836 04</u>

It was also noted that payments in excess of \$475,000.00 were made to the same contractor for the demolition of buildings in the same contracts, as follows:

<u>Contract</u>	<u>Item</u>	<u>Description</u>	<u>Amount</u>
#4824 (C-1)	G 15-21 to G 15-33	126 Buildings Demolished	\$246,000 00
#5071 (D-1, H-1)	G 15-21 to G 15-38	99 Buildings Demolished	229,500 00
			<u>\$475,500 00</u>

In view of the fact that previous demolition contractors have made it a practice to dispose of non-combustible debris from the demolition of buildings on the contract site as acceptable solid material as backfill in cellar holes on the same project without compensation from the Commonwealth, the payment of the \$113,836.04 to this contractor for similar work establishes a precedent which may add thousands of dollars to the cost of road construction.

The following paragraphs which appear in a Department of Public Works communication dated September 22, 1953 reports the findings and experience of a Department Engineer on the subject of payment by the Commonwealth for acceptable solid fill obtained from the demolition of buildings, as follows:

"...In all instances the demolition contractors left the debris free of inflammable material as specified in the Special Provisions. Our inspectors watched this carefully and the threat of not allowing them to leave material in the cellar holes assured clean material for filling. NO PAYMENT, however, was ever made by us for this fill on any contract.

"The acceptance of this fill within the limits of the contract special provisions and our Standard Specifications, subsections A2.30 B & C, provided many benefits. The contractor was relieved of the expensive operation of hauling the material away. The Commonwealth saved paying for about 130,000 cubic yards of fill. The city traffic was spared the inconvenience of moving 30,000 truck loads of material through the city streets. The holes were left in a safer condition than just the use of a rail fence would provide. Collection of rubbish and water in the holes was minimized. Appearance of the demolished area was improved..."

The following paragraph applicable to material from demolition of buildings appeared in the two contracts awarded for the construction of Sections C-1, D-1 and H-1 of the John F. Fitzgerald Expressway, as follows:

"DISPOSAL OF MATERIALS"

"All materials resulting from the demolition of the buildings shall become the property of the Contractor, and he shall dispose of the same outside and away from the site, except that he will be permitted to dispose of acceptable solid fill consisting of non-combustible materials such as brick, stone and plaster (but not wood lath) in accordance with Subsections A2.30B and C."

Subsection A2. -30B of the 1941 edition of Standard Specifications for Highways and Bridges reads in part, as follows:

"A2.30 General"

"B. Disposal of Excavated Materials. All suitable materials obtained from the excavation shall be used either in the formation of embankments, subgrade, shoulders, slopes, loam or clay hardening, etc., or for backfill under, over, or around structures, pipe culverts or drains and at such other places as directed and the material shall be placed, rolled, and tamped in a manner conforming to the specification for the particular type of work required, without additional compensation."

Subsection A2.30B of the 1953 edition of Standard Specifications for Highways and Bridges, approved by Board vote on January 26, 1954, reads in part, as follows:

"A2.30 General"

"B. Disposal of Excavated Materials. All Suitable materials obtained from the excavation, or from the removal of present structures shall be used either in the formation of embankments, subgrade, shoulders, slopes, loam or clay hardening, etc., or for backfill under, over, or around structures, pipe culverts or drains and at such other places as directed and the material shall be placed, rolled, and tamped in a manner conforming to the specification for the particular type of work required, without additional compensation."

Considerable doubt as to the propriety of the Department of Public Works paying for materials from buildings demolished on the site of the work appears to exist in a letter written on September 2, 1953 by the Department Chief Engineer to this contractor, which reads in part, as follows:

"Your next to the last paragraph reads:

"We wish to emphasize, at this time, that the non-combustible building materials encountered in the excavation were suitable for use as borrow and therefore a considerable saving will accrue to the State by using such materials in place of ordinary borrow.

"Please notify me immediately by letter if this means that you are giving this material to the Department as free borrow.

"Trusting this reply will clarify the items discussed, I await your reply to the foregoing paragraph."

The Department Chief Engineer received a reply to this inquiry in the following letter from the contractor dated September 24, 1953, as follows:

"In reply to your letter of September 2, 1953, concerning payment as borrow the suitable materials salvaged by us in the demolition of buildings, please be advised that we expect to receive payment for such borrow under the contract items of ordinary borrow."

In a memorandum dated September 30, 1953 from the Department Chief Engineer to the Department Construction Executive Assistant, the payment of materials salvaged from demolished buildings is authorized by the Chief Engineer as follows:

"Because of the foregoing, that quantity of the salvaged material acceptable to us and used as borrow is to all intent and purposes 'material coming from outside the highway location' (see Paragraph A6.10 Standard Specifications)."

Subsection A6.10 of Standard Specifications reads as follows:

"BORROW""A. 6.10 General"

"When, in the opinion of the Engineer, there is not sufficient suitable material available either within the slope lines of the section under contract or within the limits of the highway location to form the necessary embankments, subgrade, foundations, shoulders, or backfill, the Contractor shall obtain such additional material as may be necessary from outside of the highway location."

The foregoing facts indicate conflicting opinions by Department engineers as to the propriety of the Commonwealth paying for materials resulting from the demolition of buildings on the contract site. Also there does not appear to be any specific authority present in either of the aforementioned contracts which authorizes the Department to pay for suitable materials obtained from the demolition of buildings on the same contract site. The Department Chief Engineer's order authorizing payment for the salvaged material under Subsection A6.10 of the Standard Specifications adds to the confusion existing from the above payment of \$113,836.04, since this subsection deals with materials obtained from outside the contract site. It is, therefore, urged that the Commission on Administration and Finance obtain a legal opinion from the Attorney General as

to the legality of payment for materials obtained from demolition of buildings used as backfill within the same contract sites.

DIVISION OF BANKS

REPORT NO. 55-45

Examination of Banking Institutions: Costs of examinations of the various banking institutions under the supervision of the Division of Banks are billed to the banks concerned. Charges for the examinations of co-operative banks, credit unions and savings banks are based on a percentage of the assets of these institutions concerned and do not in all cases cover the actual cost of the examination.

During the period from October 6, 1953 to October 13, 1954 these costs and reimbursements were as follows:

	Costs	Reimbursement Billings	Difference
Savings and Loan Associations	\$ 3,688 06	\$ 3,688 06	-
Other Banking Institutions	5,901 86	5,901 86	-
Credit Unions	81,919 55	32,400 06	\$ 49,519 49
Trust Companies	154,741 99	154,741 99	-
Co-operative Banks	179,875 82	170,604 07	9,271 75
Savings Banks	257,014 46	208,048 98	48,965 48
	<u>\$683,141 74</u>	<u>\$575,385 02</u>	<u>\$107,756 72</u>

DEPARTMENT OF EDUCATION

GENERAL DEPARTMENT

REPORT NO. 55-46

Division of Special Education: In accordance with Chapter 514 of the Acts of 1954, the number of divisions in this department was increased from nine to ten. The duties of the newly created Division of Special Education entail the supervision of the education of children who are mentally retarded, physically handicapped, deaf or hard of hearing, blind, or with impaired vision or speech. This statute further provides that cities and towns be reimbursed for half the cost of expenses of instruction, training and support of children in special classes who are mentally retarded, physically handicapped or afflicted with cerebral palsy.

Reimbursements to Cities and Towns: Under the provisions of various chapters of the General Laws, certain cities and towns are reimbursed in part for expenses in connection with educational activities. Annually the General Court appropriates several million dollars for such reimbursements. On examining the expenditures under these appropriations, it was noted that payments from the current year's appropriations pertain to prior school years. As of June 30, 1954, there existed a liability of the Commonwealth in this respect of many million dollars. It is not the present practice to enter this liability on the records since there is generally little or no balance remaining in the several appropriations. As a result, neither the department's annual statements nor the Comptroller's records reflect these liabilities. The following schedule shows the extent of this liability as of June 30, 1954:

Appropriation	1955 Appropriation	Scheduled For Payment To Nov. 15, 1954	Reimbursement Period Covered
Schools for Children of Working Mothers	\$ 12,500 00	-	7/1/53- 6/30/54
Sight Saving Classes	20,000 00	-	Up to date
School Superintendents in Small Towns	188,010 01	\$ 183,463 23	7/1/53- 6/30/54
School Transportation	2,500,000 06	2,921,508 82*	7/1/53- 6/30/54
Vocational Education - Tuition	3,946,704 10	3,914,407 69	9/1/52-10/31/53
Vocational Education - Transportation	79,489 00	79,489 00	9/1/52-10/31/53

Adult English Speaking Classes	\$ 90,783 53	\$ 55,914 21	9/1/52-10/31/53
Education of Deaf and Blind Pupils	35,000 00	-	7/1/54- 6/30/55
	<u>\$6,872,486 70</u>	<u>\$7,154,782 95</u>	

* Includes deficiency request for \$421,508.76.

Sale of Land and Buildings to the Town of Barnstable: Chapter 623 of the Acts of 1953 authorized the Board of Commissioners of the Massachusetts Maritime Academy, acting on behalf of the Commonwealth, in consideration of the sum of \$100,000.00 to be paid by the Town of Barnstable, to convey by deed to said town, certain parcels of land and buildings thereon. This property represents most of the site of the former Hyannis State Teachers College. Ownership of that area on which are located the Howes Camps and the Recreation Building are still vested in the Massachusetts Maritime Academy.

The records of the Department indicate the receipt of \$100,000.00 from the Town of Barnstable on January 25, 1954. It was further noted that this amount was transmitted to the State Treasurer on January 26, 1954.

DEPARTMENT OF CIVIL SERVICE AND REGISTRATION

GENERAL DEPARTMENT

REPORT NO. 55-48

License Renewals by Various Boards: The previous two audit reports have stated as follows:

"Attention is called to the fact that many of the Board of Registration are forced annually to handle the mailing and filing of thousands of renewal applications, renewals, etc. Because of this arrangement, these boards are severely handicapped at various peak periods during each year when the processing of these renewals develops. In the interests of more efficient management and better accountability, it is suggested that serious consideration be given to the establishment, as an integral part of the Division of Registration, of a Central Renewal Section. It is further suggested that legislation be sought relative to the issuance of all licenses on a biennial basis. At the same time it is suggested that efforts be made to enact legislation which will provide for an equitable distribution of renewal dates throughout the calendar year.

"If the foregoing suggestions become effective, it will then be easily possible to obtain competent tabulating machine assistance in effectively working out all practical administrative and clerical problems.

"It is also mentioned in connection with this matter that in no wise would the issuance or control of the original licenses by the respective boards be disturbed if the foregoing suggestions are favorably acted upon."

Inasmuch as nothing has been done in this regard, it is again repeated.

TEWKSBURY STATE HOSPITAL AND INFIRMARY

REPORT NO. 55-49

General: The previous audit report commented at length relative to difficulty encountered in making a proper audit because of the condition of the records of this institution.

In this connection, it was noted that during the current audit period efforts have been made to correct this situation and certain improvements were noted in this direction. However, the following conditions were noted with respect to the condition of the accounts as of the date of audit:

1. The general ledger was posted only through June 30, 1954.
2. Records of the Community Store were posted only through July 31, 1954.

3. Voided sales slips were not filed with the duplicates, and there were a great many voided sales slips.
4. Sundry amounts of cash which were received during the audit period and were deposited in the bank were not entered in the cash book.
5. Records were not properly filed and in many instances, pertinent information could not be available for audit.

Balancing of Cash: The following shows shortages noted in connection with the balancing of the several cash accounts in this institution as of the date of audit, October 18, 1954:

<u>Account</u>	<u>Shortage</u>
State	\$228 09
Patients	123 69
Post Office Box	14 19
Locker Key Fund	10 73
	<u>\$376 70</u>

State Cash: The cash account indicated a shortage on the date of audit of \$228.09 and on the date of the previous audit a shortage of \$141.19 was noted, indicating an increase of \$86.90.

In an effort to ascertain the cause for these variances, it was determined that amounts had been recorded as receipts in the State cash book in excess of amounts deposited in the bank. An attempt was then made to identify the dates when the bank deposits differed from the recorded receipts; and it immediately became apparent that the cash book record of receipts and the bank deposits could not be reconciled as there was no relation between them.

It was also noted that the State cash book, after closing, on June 30, 1954 still showed a balance. On date of audit there was still reflected in the cash account, items of miscellaneous income for refunds of previous years which had been collected as far back as December 1953 but had never been remitted to the State Treasurer.

In this connection it is suggested that the Comptroller's Bureau Accounting Manual, which explains the methods of depositing receipts and their transfer to the State Treasurer, should be heeded.

Advance Money: The 1955 advance money when reconciled with the Comptroller's Statement of Advances on the date of audit indicated a shortage in the amount of \$339.33.

In this connection it was noted that during the 1954 fiscal year certain accounts payable pay rolls, totaling \$112.62, were disbursed without prior approval by the Comptroller's Bureau and were subsequently disallowed. This institution in order to bring this account into agreement with the Comptroller's records as of June 30, 1954, prepared adjusting journal entries, debiting cash and crediting Advance by State Treasurer despite the fact that the cash had not actually been reimbursed. On July 15, 1954, the institution returned the correct balance of the 1954 advance money through the expediency of using money already advanced for 1955.

In this connection it was noted that overpayments in the amount of \$1.38 were collected on October 4, 1954 and, therefore, the difference between the Comptroller's records and those of the institution is represented by the \$228.09 cash shortage and \$111.24, the balance in the accounts payable pay rolls which still have not been reimbursed.

In this connection the Comptroller's Bureau Accounting Manual states:

"Under no circumstances will any part of an advance for a subsequent fiscal year be used as a return of advance for the current fiscal year or to pay prior year liabilities."

It is urged that this regulation be complied with henceforth and not be entirely disregarded as was done in this instance.

Pay Roll Bank Account Reconciliation: The previous audit report stated in this connection:

"In connection with the past several audits much difficulty has been experienced in attempting to reconcile the pay roll bank account. Even though this account was finally reconciled as of July 1, 1953, it was accomplished only after two items were accepted even though they were not satisfactorily explained. These items were designated as 'Previous Errors' in the amount of \$43.73 and 'Lost Checks' in the amount of \$109.98. An organized effort should be immediately made to identify and adjust these items.

"In further connection with this matter it was noted that a few so-called 'Lost Checks' were found in the treasurer's office and have been referred to in a previous comment.

"It is also suggested that those employees who prepare the pay roll should also reconcile the pay roll bank account so that as errors are located they can be adjusted immediately and not be permitted to continue indefinitely."

It was noted that a representative of the Comptroller's Bureau visited the institution in February 1954 to reconcile this account and overpayments totaling \$125.29 were noted. These were due from various employees, some of whom are still employed at this institution.

It is urged that an effort be made to obtain refunds of the foregoing amount.

Advances to Patients a/c Fares: At present this institution uses advance money for carfare for patients visiting nearby towns, and subsequently these items are scheduled to the Department of Public Welfare for reimbursements.

It would, therefore, appear that the advance money is being used for Department of Public Welfare purposes. It is, therefore, suggested that the Comptroller's Bureau review the present system and possibly suggest revisions.

Checks and Cash Found in the Treasurer's Office: The previous audit report stated in this connection:

"Attention is directed to the fact that on the date of audit there was found in the treasurer's office a box containing 37 checks and \$42.17 in currency which had not been processed in the ordinary routine of business. These checks were dated from 1947 to May 29, 1953. The following shows an analysis of the checks and currency found in this box:

<u>Checks</u>	<u>Number of Checks</u>	<u>Amount</u>
Source:		
Pay Roll	26	\$240 19
Income	1	36
Patients' Funds	1	53 01
Escrow Retirement	9	82 56
	<u>37</u>	<u>\$376 12</u>
<u>Currency</u>		<u>Amount</u>
Source:		
Refunds Prior Years - Income		\$15 00
Patients' Cash		27 17
		<u>\$42 17</u>

"The methods of handling the entries for the foregoing transactions are not involved and have been matters of routine policy for many years. It is suggested that these items be disposed of in accordance with accepted routines and procedures immediately."

It was noted that of the foregoing checks and cash, there were still on hand on October 18, 1954, the following:

<u>Checks</u>	<u>Number of Checks</u>	<u>Amount</u>
Source:		
Pay Roll	<u>1</u>	<u>\$32 33</u>
Currency:		
Patients' Cash		<u>\$27 17</u>

In addition to the foregoing, \$9.50 in currency was also found on hand on the audit date.

It was further noted that a \$.36 check of income which was on hand at the time of the previous audit had been deposited, but was never recorded in either the State cash book or the Accounts Receivable ledger.

It is again suggested that all these items be properly disposed of.

Special Appropriations: In reconciling the special appropriations accounts with the Comptroller's Bureau records, it was noted that there were four which had been transferred from the State Building Commission to this institution but were still not reflected on its records.

In this connection, it was noted that a letter from the Commission on Administration and Finance, dated September 15, 1954, to the Department of Public Welfare transferred these accounts to the operating agency. However, to December 20, 1954, this information has not been received by this institution.

Patients' Funds: Previous audit reports have repeatedly commented upon the difficulty of making proper audits of these funds. In this connection, an employee of the Department of Public Welfare visited the institution in February 1954 for the purpose of bringing the various accounts into agreement. In this connection, it was noted at this time, individual ledger card balances were simply reconciled with the recorded cash book balances notwithstanding the fact that the cash book contained many errors.

Since February 10, 1954, these records have been properly maintained.

Prior to that date, however, the following conditions were noted:

1. The patients' cash book errors that were reported in previous audit reports were not actually corrected and, therefore, the beginning balance July 1, 1953, as appearing on the cash book, is out of balance in the amount of \$56.27.
2. The following errors were noted in connection with verifying cash book footings:
 - \$ 9.00 Overstatement of Receipts at page 202, August 1953
 - 21.00 Understatement of Receipts at page 204, August 1953
 - .14 Overstatement of Receipts at page 218, September 1953
 - .40 Overstatement of Receipts at page 266, December 1953
 - 9.00 Understatement of Disbursements at page 263, December 1953
 - 525.91 Understatement of Disbursements at page 277, December 1953
3. In checking the patients' receipt slips, it was noted that 18 slips totaling \$112.85 were never recorded in the cash book as receipts. Of these, five totaling \$37.00 were recorded as cash disbursements in the cash book.
4. Payments were stopped on old outstanding checks amounting to \$312.87. This amount was added back to the checkbook balance, but was not recorded as a receipt in the cash book nor was it remitted to the State Treasurer. The respective accounts were not posted to individual ledger cards.
5. Checks to pay so-called "Patients' Pay Roll" were recorded as disbursements in cash book, but were never recorded as contra receipts in amounts totaling \$236.00.
6. Several of the patient receipt slips which were not recorded in the cash book were posted correctly to the individual ledger card, and the receipts which were erroneously recorded as cash disbursements in the cash book were posted correctly to the individual ledger cards.

As a matter of information, the Patients' Cash Statement, Schedule No. IX, as appears in this audit report, was prepared after taking into consideration all the aforementioned errors.

Patients' Funds - Balance of Cash: In balancing the Patients' Funds cash, a shortage of \$123.69 was noted. At the time of the previous examination there was a shortage in the amount of \$118.94.

In this connection, it was noted that the records as presently constituted indicate three different balances as of October 18, 1954, as follows:

Patients' Cash on Hand	\$21,168 92
Patients' Cash Balance per Cash Book	21,292 61
Trial Balance of Patients' Cards	21,565 23

Accounts with Patients no Longer in Institution: The previous audit report stated in this connection:

"The accounts with patients were all analyzed and it was noted that approximately 48% of the fund balance was in the names of patients who were deceased, discharged or escaped. This condition certainly indicates a complete lack of co-operation between the discharge office and the treasurer's office. The co-ordination of these two offices with respect to this function should be immediately effected."

"It is also again recommended that immediate steps be taken to return these funds to their proper owners. In instances where this is impossible, they should be disposed of in accordance with existing statutes, etc."

It was noted that patients' accounts include funds belonging to 65 patients who were discharged during the 1954 calendar year.

It is again suggested that better co-ordination be practiced between the discharge office and the treasurer's office.

Patients' Funds - General: The previous audit report stated:

"Attention is directed to the fact that patients' funds in the hands of this institution are in the nature of trust funds. Because of this, institution officers and personnel who are required to process patients' funds are fiduciaries. The duty owed by fiduciary personnel is that of the highest degree of care, and it is evident that the duty owed toward these funds is even higher than the great duty of care in the handling of the Commonwealth's funds."

"Certainly, based on the conditions as represented herein, the processing, handling and recording of patients' funds in this institution does not reflect such an attitude of due care, and the control of the funds is most inefficiently managed. It is advised that this institution adopt at once the attitude of a true fiduciary and take steps to improve its system of handling patients' monies."

It was noted that while efforts have been made to correct the condition of these accounts, further improvements are still most necessary, and it is recommended that efforts be continued to correct these essential records.

Community Store - Inventory: A complete inventory of the merchandise purchased for resale was taken on the date of audit and in this connection, it originally appeared that the physical inventory when compared with the book inventory indicated a shortage of \$4,672.35. However, in checking the records subsequently, it was noted that ice cream was being valued for retail valuation purposes at \$2.30 per gallon whereas it should have been valued at \$3.30 per gallon. Taking this miscalculation into consideration the shortage was increased by \$1,307.23, making a total inventory shortage of \$5,979.58 for the audit period.

In a further effort to determine the cause of this inventory variance, all purchase invoices were checked against receiving records and cash disbursements. Invoices were further verified as to mark-up from cost to selling price and for proper entry to the cash

book. In this connection, 119 errors in the marking up of invoices aggregating a further net deduction of \$143.46 were noted, creating a final shortage of \$5,836.12.

This shortage could not be identified despite the fact that considerable time was expended in exhaustively examining all possible phases of this activity.

The records also indicated that 44 invoices were paid for merchandise although the receiving records did not indicate they had been received.

The past three audit reports of this institution's accounts have indicated the following inventory shortages in this activity:

<u>Audit Period</u>	<u>Shortage</u>
October 17, 1951 to November 10, 1952	\$4,206 69
November 10, 1952 to July 1, 1953	1,076 00
July 1, 1953 to October 18, 1954	5,836 12

The foregoing results have on these occasions been brought to the attention of all who are concerned in the affairs of this institution. Normally, it would have been expected that some improvement would have been shown in this direction, yet conditions have degenerated to a point where it is now suggested that these shortages be reported to the proper authorities so that a complete investigation may be made of the entire Community Store activities.

CIVIL DEFENSE AGENCY

REPORT NO. 55-51

Civil Defense Agency - Cities and Towns Trust Funds: Account No. 6815: The various cities and towns of the Commonwealth advanced amounts to this account for the direct purchase of defense equipment. The balance in this account as of November 1, 1954 was \$393,008.05, of which \$392,595.95 was encumbered and \$412.10 unencumbered.

Account No. 6816: The Federal Government advances money to this account which is matched by amounts paid by the various cities and towns for the purchase of defense equipment. The Federal Government may also advance funds, upon request of the cities and towns, for purchases to the Civil Defense Agency. Upon receipt of the matching funds from the cities and towns, purchases may be made and bills are submitted to this Agency where they are processed for payment. The balance in this account as of November 1, 1954 was \$172,315.05, of which \$164,735.47 was encumbered and \$7,579.58 unencumbered.

Civil Defense Agency - Federal Trust Funds: Account No. 4128: This account represents advances made by the Federal Government and matched funds of the Commonwealth which are spent for the defense program. There was a balance in this account on November 1, 1954 of \$27,424.44, of which \$24,779.00 was encumbered and \$2,645.44 unencumbered.

Account No. 4129: This account represents an advance made by the Federal Government to the Commonwealth to defray the cost of transporting trailers from the Middle West to aid the tornado stricken Worcester area. There was no balance in this account on November 1, 1954.

Account No. 4131: This account represents an advance made by the Federal Government to the Commonwealth to replace certain supplies, etc., lost during the tornado disaster in the Worcester area. The balance in this account as of November 1, 1954 was \$1,329.83, of which \$846.85 was encumbered and \$482.98 unencumbered.

Inventory Control: The previous audit report stated as follows in this connection:

"The control of inventories of supplies account is now maintained in a stock ledger by individual classifications. In some cases this is controlled only in units and not for monetary value. These ledger accounts also indicate the specific location of the materials. Other items of materials particularly communications equipment is posted only to a card file showing the location of the equipment and not to the stock ledger.

"The Agency does not maintain a general ledger therefore a monetary control for inventories is not possible."

With reference to the foregoing, it was noted that the so-called stock ledger in use is simply a memorandum record of these items which were purchased. These materials which cost approximately \$1,500,000.00 have been transferred to 350 first aid stations

located in 114 cities and towns and to stock piles at 27 state and 3 county institutions throughout the Commonwealth. No replacements, adjustments, transfers or issues are recorded in this ledger. It was also noted that apparently no one has been given authority to make adjustments.

In this connection it was also noted that under date of July 7, 1954, the Comptroller's Bureau wrote to this Agency as follows:

"It is not always practicable to control equipment in stock ledgers. In this particular instance the communications equipment has been installed in selected locations and is therefore not subject to stock ledger control. However it is noted that during this visit the suggestion was made to Mr. Burroughs that the communications equipment be made the subject of quarterly reports in the same manner as is done for medical supplies.

"Those items of medical supplies and equipment which were purchased and subsequently assembled into standard units were distributed to First Aid Stations located in the various cities and towns of the Commonwealth and reserves of similar materials are stored in State and County Institutions. All such materials and supplies are now subject to quarterly reports and appear to be adequately controlled. It is recommended that the control, currently being maintained, be continued and that the quarterly reports continue to be actually checked, not permitted to be merely received and filed."

Apparently as a result of the foregoing, the Director of this Agency wrote to the Comptroller under date of July 26, 1954, as follows:

"Upon his (Comptroller's) recommendation we are having our communications equipment made the subject of quarterly reports in the same manner that is done for medical supplies."

Despite this assurance, however, no such quarterly reports were received on communications equipment to the date of audit.

In reviewing the quarterly reports for medical supplies, it was noted in one instance that 79 litters could not be accounted for.

It was also noted that no records were available to show that items paid for under Purchase Order No. 301225, which cost \$637.66, had actually been received.

It was further noted that the distribution of 20,830 litters which cost \$187,486.88 could not be accurately accounted for through the records maintained. As a matter of fact, three separate sets of records were presented for the audit in this connection: one from a so-called stock ledger which includes monetary values without control; another from a stock ledger representing units only; and the third which was a separate list of State and County institutions where medical supplies are now stored and which also included a distribution by cities and towns of the first aid stations.

It is most important that complete and adequate records be maintained in this connection and it is urged that immediate steps be taken to enlarge the present system to include any such necessary features.

MILITARY DIVISION OF THE EXECUTIVE DEPARTMENT

REPORT NO. 55-54

Commonwealth Armory Modifications: The amount of \$250,000.00 was originally appropriated for modifications at this armory, and to date of audit a total of \$232,698.95 was expended from it. In addition, the Federal Government contributed the sum of \$548,623.08 to November 1, 1954. The original contract price was for \$691,198.00 and change orders increased it to \$731,497.44. The fee for architectural and engineering services was based upon 8% of the original contract price. Extra compensation is allowed for such services when caused by change orders and the amount allowed in such case is the equivalent of the actual pay roll cost plus 100% thereof for overhead expense.

Administration Building for Massachusetts National Air Guard at Logan International Airport: The Federal Government originally allocated \$474,828.00 for construction of this building, and in addition, there have been change orders amounting to \$49,996.00 so that the total obligations assumed by the Federal Government is \$524,824.00. Upon completion, this building will be turned over to the Commonwealth.

Federal Participation Contract: For the 1954 fiscal year service contracts were entered into with the Federal Government whereby the Commonwealth is to be reimbursed for 75% of the operating costs of certain installations as follows:

<u>Contract Number</u>	<u>Location</u>	<u>Maximum Amount to be Reimbursed to the Commonwealth by the Federal Government</u>	<u>Actual Amount Reimbursable to the Commonwealth by the Federal Government Applicable to Contract</u>
DA-19-093-NG-88	Commonwealth Maintenance Depot, Whittemore Center, Ayer	\$ 11,326 57	\$ 8,004 97
DA-19-093-NG-89	Fort Devens Airfield, Ayer	4,230 00	4,230 00
DA-19-093-NG-87	Commonwealth Supply Depot, Natick	25,958 00	25,958 00
DA-19-093-NG-91	Massachusetts Military Reservation, Falmouth	6,000 00	4,464 88
DA-19-093-NG-119	101st Communication Squadron, Somerville Armory	5,500 00	5,410 87
DA-19-093-NG-118	Barnes Field, Westfield	36,000 00	28,914 76
DA-19-093-NG-117	Aviation Facilities at Logan Airport, East Boston	47,000 00	47,000 00
DA-19-093-NG-120	Air Facilities at Grove Street, Worcester	2,000 00	1,120 14
		<u>\$138,014 57</u>	<u>\$125,103 62</u>

OFFICE OF SCHOOL LUNCH PROGRAMS

REPORT NO. 55-60

Liability June 30, 1954 for Claims by Schools for Reimbursements: The 1954 appropriation by the General Court for school-lunch partial assistance totalled \$1,200,000.00. This amount, however, was insufficient to pay all charges applicable to the 1954 fiscal year. As a result, the balance of charges outstanding as of June 30, 1954 which amounted to \$99,496.16 were paid from the 1955 appropriation.

STATE SUPERINTENDENT OF BUILDINGS

REPORT NO. 55-63

Contingent Liability on Completed Contract: On September 29, 1952, a contract for the installation of a freight elevator was awarded to the lowest bidder of record for \$67,525.00, and was accepted as completed on June 12, 1953. On August 28, 1953 the contractor filed a law suit against the Commonwealth alleging extra compensation in the amount of \$10,825.80 for alterations in the foundation of the freight elevator. It was noted that a declaration was filed by the Attorney General's office denying the allegations of the suit with the reasons therefor. This matter was still awaiting settlement as of the date of audit.

Letter Contracts: During the current audit period the so-called "letter" contracts awarded by this department totaled \$54,600.00 and included 122 awards. The work involved general maintenance, heating, plumbing, painting, wall cleaning, electrical, grounds and trees, flooring, etc.

Contracts Awarded: It was noted that two contracts in excess of \$1,000.00 each had been awarded during the audit period. One was for alterations to the offices of the Department of Public Health in the State House, and was given to the lowest bidder for \$7,819.00, the charge being made to maintenance account 045-02-12. Extra work orders amounting to \$2,660.00 brought the total cost of this order to \$10,479.00.

The second contract amounted to \$4,764.00 and involved work necessary because of a fire in the House of Representatives Writing Room. This order was placed with the prior approval of the Commission on Administration and Finance because of lack of time in which to properly advertise the work. It was given to a contractor already engaged in similar repair work in the State House.

STATE RACING COMMISSION

REPORT NO. 55-66

Refunds: The previous audit report indicated that fees of \$1,200.00 had been paid by the Berkshire Raceway, Inc., on January 10, 1952, but did not request a refund pending the filing of its applications for racing dates in 1953 and again in 1954. In this connection it was noted that inasmuch as no license was granted in the racing years 1952, 1953, or 1954, a refund was requested by the Corporation which was approved by the Commission April 16, 1954.

It was also noted that two racing associations apparently entitled to refunds of fees had not filed requests to the date of audit as follows:

a) Hampshire, Franklin and Hampden Agricultural and Horticultural Society were granted six days of racing from September 6th to 11th, both dates inclusive, and had paid the license fees of \$300.00. They were unable to operate on September 11, 1954 because of the hurricane and are entitled to a refund of \$50.00 for one day.

b) Middleboro Agricultural Society filed an application accompanied by a check for \$300.00 requesting six racing days August 30, 1954 to September 4, 1954, both dates inclusive, but the application was dismissed by the Commission August 12, 1954. The application was resubmitted requesting six days of racing September 27, 1954 to October 2, 1954, both dates inclusive. The second application was also dismissed, and the association is entitled to a refund of \$300.00.

There can apparently be no action by the Commission on this matter until a request for a refund has been submitted.

Special Daily Double Consolation Pool: Rule number 434 (i) of the rules of horse racing as set forth by the Massachusetts State Racing Commission refers to a so-called special daily double consolation pool. As there appears to be a certain ambiguity about this rule, it is suggested that the Commission request an opinion from the Attorney General as to the legality of such a payment in the event of a late scratched horse in the second half of the daily double.

Unclaimed Pari-Mutuel Tickets: At the date of audit, the value of unpaid pari-mutuel tickets for the 1953 racing season was \$63,030.60. This amount, subject to change because of tickets being redeemed at a later date, will be payable to the Commonwealth early in 1955. Checks totaling \$62,952.00 were received from the various associations early in 1954 covering the unpaid pari-mutuel tickets for the racing year 1952.

It is understood that these unpaid tickets are under continuous audits by the commission's accountant until they are finally turned over to the Commonwealth in accordance with statute.

Agricultural Purposes Fund: This fund originates in the receipts from commissions and breakage from racing at fairs and is provided for by Chapter 390 of the Acts of 1947 as amended by Chapter 319 of the Acts of 1948.

The amount of \$103,263.21 which was received as the result of fairs held in the 1954 year has been credited to this fund.

DIVISION OF INDUSTRIAL ACCIDENTS

REPORT NO. 55-69

Change in Departmental Structure: Chapter 314 of the Acts of 1953, effective May 1, 1953, repealed Chapter 24 of the General Laws under which the Department of Industrial Accidents operated. Said Chapter 314 further amended Chapter 23 of the General Laws by creating within the Department of Labor and Industries a Division of Industrial Accidents. In this connection, Section 1 of Chapter 314 of the Acts of 1953 reads as follows:

"Section 1. Chapter 23 of the General Laws is hereby amended by inserting at the end thereof the following ten sections under the caption
DIVISION OF INDUSTRIAL ACCIDENTS:- Section 14. There shall be in the department but not under its supervision or control a division of industrial accidents, consisting of the industrial accident board herein-after provided for. . . ."

EMERGENCY FINANCE BOARD

REPORT NO. 55-71

Activities of the Board: A summary of the respective number of cases requiring Board action or approval during the fiscal year ended June 30, 1954, follows:

<u>Description</u>	<u>Authority</u>	<u>No. of Items Acted Upon</u>	<u>Pro Rata Expense</u>
Post War Rehabilitation	Chap. 5 Acts of 1943	10	\$ 1,210 00
Public Works Projects	Chap. 74 Acts of 1945, as amended	9	2,425 17
Creation of Stabilization Fund	Chap. 124 Acts of 1945	6	-
Municipal Relief	Chap. 479 Acts of 1953	2	1,077 17
Formation of Regional School Districts	Chap. 638 Acts of 1949	21	1,936 00
School Building Assistance	Chap. 645 Acts of 1948 as amended	144	6,825 49
Civil Defense Loans	Chap. 580 Acts of 1951	1	-
Debt Limit for Cities and Towns	Chap. 56 Acts of 1952	51	4,119 16
Extraordinary Repair to Public Buildings	Chap. 275 Acts of 1948	9	1,210 00
		<u>253</u>	<u>\$18,802 99</u>
Total Number of Board Meetings - 1954 Fiscal Period		<u>79</u>	

DEPARTMENT OF CORRECTION

GENERAL DEPARTMENT

REPORT NO. 55-74

Prison Camp: There has been open since May 22, 1952 one such camp located in the Myles Standish State Forest in Plymouth. The general books are maintained by the Department of Correction senior bookkeeper in the State House. At the camp site, however, the following records are kept:

Canteen Fund Accounts
Inmates' Fund Accounts
Materials and Supplies Stock Ledger

In connection with the records, the following was noted:

Canteen Fund: There was no cash book, general ledger or any other permanent record pertaining to the transactions of this fund available.

Inmates' Fund: There was no cash book, general ledger, control account or individual account records for discharged prisoners available.

Materials and Supplies Account: It was noted that items originally issued through the Materials and Supplies account were cleaned after being in use and were then returned to the stockroom and intermingled with unissued items. Because of this arrangement, it is impossible to maintain adequate control and it is recommended that the Comptroller's Bureau establish the proper records and instruct the Prison Camp personnel in their maintenance.

Department of Correction - Contracts Awarded: It was noted that the contract for the construction of the industrial buildings and garage at the new State Prison was awarded to the second lowest bidder of record. The adjusted bids were as follows:

Lowest Bidder	\$910,300 00
Second Lowest Bidder	<u>920,522 85</u>
Difference	<u>\$10,222 85</u>

The lowest bid was rejected because the bid was not signed and the required bid security in the form of a certified check was not submitted.

SOLDIERS' HOME IN HOLYOKE

REPORT NO. 55-76

Cash Shortage: The previous audit report discussed a cash shortage in the accounts of this institution in the amount of \$10,790.38, which was represented by \$2,999.50 of State Funds and \$7,790.88 of Patients' Funds. To the date of this audit, restitution in

the amount of \$2,930.25 had been made and was deposited to the credit of the Patients' funds, and while this current audit was in progress there was received checks from bonding companies in the total amount of \$7,860.13, which represented the balance of the cash shortage which had not been reimbursed.

MASSACHUSETTS BOARD OF EDUCATIONAL TELEVISION

REPORT NO. 55-77

General: In accordance with Chapter 662 of the Acts of 1953 this Board was created for the purpose of providing or sponsoring educational, cultural and informational television programs for citizens of the Commonwealth.

The Board is authorized to establish and manage a trust fund to be known as the Educational Television Program Fund, and may expend moneys from it without appropriation.

Section 6 of this statute places certain restrictions on the types of programs to be sponsored by the Board, which deal principally with commercial, religious and political programs. This section further provides that the Board may:

"(a) Acquire, construct, hold, lease and dispose of real and personal property;

"(b) Prepare programs, enter into agreements providing for the furnishing to the board of programs, equipment, assistance and personnel, purchase broadcast time from others, and enter into other contracts;

"(c) Obtain assistance from, and co-operate with others, including, without restriction, institutions of learning and groups interested in television broadcasting;

"(d) Hold and administer real and personal property and money given, whether outright or in trust, to the board or to the commonwealth for the use of the board, and disburse the proceeds thereof, provided the foregoing shall not authorize any action in contravention of the requirements of section one of Article LXIII of the Amendments to the Constitution; and

"(e) Do all acts and things necessary or convenient to carry out the purpose for which the board is created or any of the powers expressly granted in this act."

As of the date of audit the Educational Television Program Fund had not been activated.

The activities of this Board during the current fiscal year are being financed from the \$24,759.87 unexpended balance reserved from the 1954 appropriation. It is understood that the extent of the activities of this Board will bear a direct relationship to the amounts appropriated by the General Court, since there appears to be no immediate plans for activation of the Educational Television Program Fund. Unless a substantial appropriation is given to the Board, it cannot become an active program-producing agency and may be forced to limit itself to supervisory activities.

METROPOLITAN STATE HOSPITAL

REPORT NO. 55-79

Maintenance Charges: An income analysis on a potential basis was set up from the quarters register for maintenance charges relating to the rental of rooms and furnishings at this institution. When this amount was compared with amounts deducted from the respective pay rolls for the same period, a variance was noted. This was occasioned by the fact that there were no register cards for those employees who occupied cottages. It is recommended that such cards be kept for all personnel who occupy quarters.

Painting Contracts: It was noted that eight painting contracts were awarded during the current audit period as follows:

	<u>Date Awarded</u>	<u>Amount</u>
Administration Building and		
Flagpoles	April 12, 1954	\$ 983 00
Interior of Cottages	May 11, 1954	3,485 00
Ward G-2	May 12, 1954	1,980 00
Power House	May 13, 1954	3,960 00
Exterior of Cottages	May 18, 1954	2,433 00

Superintendent's House	June 3, 1954	\$ 985 00
Interior of Male Home	June 3, 1954	2,149 00
Interior of Nurses Home	March 25, 1954	5,480 00
		<u>\$21,455 00</u>

All of the foregoing contracts were awarded to the lowest responsible bidder of record. The first seven were awarded by invitation to bid and one was advertised through newspapers in compliance with the provisions of General Laws, Chapter 29, Section 8A, as amended. It was noted however that all these contracts were for painting work upon and in buildings located upon the grounds of the institution, and they were all awarded during a four-month period. It is not understood why all the work was not advertised in the newspapers as one contract proposal. This probably would have resulted in bids being received from a greater number of bidders with a possible saving as a result of the extended competition.

DEPARTMENT OF PUBLIC WORKS

GENERAL DEPARTMENT

REPORT NO. 55-92

Accounts Receivable: The active accounts receivable balance on January 5, 1955 totaled \$536,541.28 of which \$510,988.64 was due from the Federal Government. This account also included accounts aggregating \$1,775.32 which represent alternative charges in cases where reimbursement is sought for damages to highways, bridges and guard rails. When either party pays the amount billed, the alternative charge is canceled.

The suspense accounts receivable balance on the same date totaled \$73,669.64 and supposedly represents those accounts turned over to the Attorney General's Department for collection, etc. Included in this amount is the sum of \$5,524.57 representing alternative charges.

The suspense accounts receivable were checked with the records of the Attorney General's department and it was noted that 42 of the accounts could not be located in that agency. A list of these accounts was given to the Department of Public Works who resubmitted them to the Attorney General under date of February 3, 1955. It was noted that during the period under examination an old account of \$3,077.93 due from the Outdoor Advertising Authority since 1946-1947 had been transferred from the active accounts to the suspense accounts receivable.

It is suggested that advice be sought from the Attorney General as to whether some disposition could be made of the older of the accounts now referred to him.

Unpaid Claim at Attorney General's Office: In connection with the audit of Suspense Accounts Receivable at the Attorney General's office, it was noted that a department claim for \$7,007.53 against a certain company for the sale of junk metal and cable in the 1952 fiscal year was still unpaid as of January 5, 1955. It was learned that the successor to this concern was prosecuting a claim against the Commonwealth for contract payments due from another State agency. It is understood that the Attorney General's office will make an effort to collect the department's claim of \$7,007.53 in connection with the current negotiations.

Overtime: A recapitulation of department overtime reports approved by the State Personnel Division for the months of January 1954 through December 1954, follows:

<u>Section</u>	<u>Classified</u>	<u>Labor</u>	<u>Total</u>
Commissioners	\$ 958 01	-	\$ 958 01
Secretary	5,772 96	-	5,772 96
Personnel	13,544 32	-	13,544 32
Publicity	1,418 03	-	1,418 03
Budget	2,420 33	-	2,420 33
Business Agent	85,747 00	-	85,747 00
Chief Engineer	7,047 10	-	7,047 10
Blueprint	15,835 77	-	15,835 77
Survey	197,732 52	-	197,732 52
Projects	111,621 91	-	111,621 91
Specifications	13,757 64	-	13,757 64
Bridge	31,213 37	-	31,213 37

Construction	\$ 74,125 11	-	\$ 74,125 11
Maintenance	13,199 91	-	13,199 91
Traffic	55,798 56	-	55,798 56
Laboratory	25,789 50	-	25,789 50
Right of Way	31,313 10	-	31,313 10
Districts 1 to 7:			
Snow	111,192 99	\$309,521 76	420,714 75
Construction	466,477 10	-	466,477 10
Maintenance	71,647 39	128,507 56	200,154 95
Buildings	2,497 13	7,217 86	9,714 99
Waterways	33,840 80	3,157 98	36,998 78
"D" St. Garage*	5,397 08	12,245 59	17,642 67
Traffic Shop*	11,267 06	14,609 61	25,876 67
Wellesley*	6,443 04	13,679 03	20,122 07
	<u>\$1,396,057 73</u>	<u>\$488,939 39</u>	<u>\$1,884,997 12</u>

* Effective November 1, 1954 the "D" St. Garage and the Traffic Shop Overtime were reported under Wellesley, a new location.

Classified Pay Roll: A tabulation of classified pay roll for the week ending September 18, 1954 as supplied by the pay roll office of the department indicated a total of 2,904 employees, of which 1,417 were permanent, 1,388 temporary and 99 emergency.

Hired Equipment: In checking the hired equipment pay roll it was noted that this pay roll of September 18, 1954 showed 25 cases where an employee was paid at the rate of \$1.00 an hour for the use of his car with a maximum of \$3.00 a day to transport himself and other employees for work in connection with Traffic Surveys. The question is raised as to the propriety of paying a flat rate of \$1.00 an hour for the use of an automobile owned by an employee rather than the established rate of seven cents a mile.

1952 and 1953 Advance Money Not Cleared: It was noted that \$2,001.86 of 1952 advance money and \$384.65 of 1953 advance money was still outstanding on January 5, 1955. This was due to the Comptroller's Bureau disallowing certain overtime paid to two officials of the department, one of whom retired on December 31, 1952 and the amount involved in his case was \$559.25, the amount paid to the other official, who is still in the employ of the department, was \$1,827.26. It is suggested that some arrangement be made to clear these outstanding advances.

Land Takings: When the Department of Public Works decides to take land by right of eminent domain a so-called "layout" is prepared which indicates those parcels of land which are to be taken together with their respective owners. Subsequently a representative of the Department of Public Works negotiates with the owners of the property relative to making a settlement. When an agreement is reached, an Offer of Settlement is signed by the owner, which is then given to a real estate conveyancer who is under contract to this department for purposes of title examination, etc. At least two members of the Board of Commissioners must also approve the transaction before it is submitted to the Office of the Attorney General for approval. In the event that no agreement appears possible, all data relative to the case is immediately submitted to the Attorney General for whatever legal action is warranted.

Land Damage Cases and Allotments: The following statement shows the comparative summary of the transactions and allotments in connection with Land Damage Cases for the six years ended June 30, 1954, as indicated by the records in the Right of Way Section of this department:

Fiscal Year Ended	Number of Projects	Cities or Towns	Number of Land Damage Cases	Allotments
June 30, 1949	33	27	258	\$ 2,643,785 00
June 30, 1950	79	58	1,015	8,827,070 00
June 30, 1951	70	60	1,249	14,952,210 00
June 30, 1952	65	64	887	5,293,509 00
June 30, 1953	67	48	943	2,975,565 00
June 30, 1954	96	62	1,179	17,618,800 00

The following further represents the amounts, etc., of land damage cases settled during the five years ended December 31, 1954, as are also shown by the records in the Right of Way Section of this department:

<u>Calendar Year Ended</u>	<u>Number of Cases Settled</u>	<u>Amount Settled</u>	<u>Right of Way Appraisal Total</u>
December 31, 1950	783	\$2,814,451 93	\$2,903,807 50
December 31, 1951	817	3,061,668 13	2,790,412 10
December 31, 1952	607	3,630,951 41	3,279,492 00
December 31, 1953	829	8,041,159 00	6,863,930 00
December 31, 1954	877	8,762,474 24	7,577,663 00

Real Estate Review Board: This board was authorized by Paragraph 2 of Section 6 of Chapter 556 of the Acts of 1952, which reads as follows:

"There is hereby created within the department of public works a real estate review board consisting of five members, to be appointed by the commissioner from members of the Boston Real Estate Board, from resident Massachusetts members of the American Institute of Real Estate Appraisers or from members of the Massachusetts Real Estate Association. All vacancies in said board shall be filled by said commissioner from a list of five names submitted by the Boston Real Estate Board and five names submitted by the Massachusetts Real Estate Association. Said department shall fix the compensation of the members of said real estate review board."

In connection with the foregoing, the minutes of the Board meeting of November 4, 1952 states that the Commissioner appointed to this Board the following five members:

Arthur P. Wilcox
Roy E. Connor
Alfred H. Dolben
Carleton Hunneman
H. Kingsley Durant

To date, eight contracts have been made with the foregoing persons.

The first contract - No. 4923 - dated August 3, 1951 with said persons as joint venturers to examine and review appraisals of property, contract to be completed October 31, 1951. However, on October 2, 1951 by vote of the Commissioner it was extended to June 30, 1952. This contract provided for payment to each of the joint venturers of \$125.00 a day for each day worked and if only part of a day was worked payment was to be prorated. Under this contract a total of \$5,437.50 was paid to the joint venturers.

The second contract - No. 5138 - dated July 1, 1952 to be completed December 31, 1952 contained the same provisions and rate of payment as the first contract. Under this contract a total of \$8,437.50 was paid to the joint venturers.

Two contracts were also made covering the period from January 1, 1953 to June 30, 1953 containing the same provisions and rate of payment. One of these - No. 5298 - related to work in connection with General Laws, Chapter 79 and the other - No. 5299 - related to work authorized by Statute 1952, Chapter 566.

It was noted that two contracts had been awarded to this group during the audit period.

Contract No. 5435 was awarded August 5, 1953 for the period from July 1, 1953 to December 31, 1953, and Contract No. 5576 was awarded for the period from January 1, 1954 to June 30, 1954 and totaled \$9,187.50. The same daily rate was indicated in both contracts.

Contract No. 5793 was awarded June 22, 1954 covering the period from July 1, 1954 to December 31, 1954, and contract No. 6026 was awarded January 4, 1955 covering the period from January 1, 1955 to June 30, 1955, at the same daily rate.

First Bond Issue of \$100,000,000.00 for an Accelerated Highway Program: Chapter 306 of the Acts of 1949, which became effective May 18, 1949, provided for a bond issue of \$100,000,000.00. Of this amount, \$92,000,000.00 was made available to the Department of Public Works and \$8,000,000.00 was made available to the Metropolitan District Commission.

The amount made available for this department was allocated by said Chapter 306, as follows:

Section 5. \$37,000,000.00 for projects to be constructed in the area set forth in the "Master Highway Plan for the Boston Metropolitan Area."

Section 6. \$53,000,000.00 for projects to be constructed in the area set forth in "The Report on Massachusetts State Highway Needs, Exclusive of Metropolitan Boston" established and defined in Exhibit A of House Document No. 1767 (1948) and for traffic studies in the urban areas and for studies to determine the feasibility of revenue producing facilities. Not less than \$5,000,000.00 of the total sum is to be expended in each of the four following districts:

- Area 1. West of the Connecticut River
- Area 2. Between the Connecticut River and easterly boundary of Worcester County
- Area 3. Middlesex, Essex and Norfolk County, including Route 128
- Area 4. Bristol, Plymouth, Barnstable, Dukes and Nantucket Counties

Section 7. \$2,000,000.00 to be expended for traffic safety devices on State Highways and on roads constructed under the provisions of Section 34 of Chapter 90 of the General Laws.

Section 12. This section provides that detailed progress reports shall be filed with the Governor and with the Clerk of the House of Representatives on December 31, 1949, June 30, 1950 and December 31, 1950, and a final report on or before July 31, 1951 relative to all projects undertaken under the provisions of this act.

Section 13. This section provides that all contracts for projects authorized by this act shall be entered into not later than June 30, 1951.

In this connection, it was noted that to the date of this audit, \$100,000,000.00 of the bonds authorized under this statute had been issued.

The following is a summary of expenditures and encumbrances incurred under this act to December 31, 1954, as supplied by the department:

	Expenditures to Dec. 31, 1954	Encumbrances Outstanding Dec. 31, 1954	Total to Dec. 31, 1954
Metropolitan Area	\$32,365,706 59	\$4,056,484 31	\$36,422,190 90
Outside Metropolitan Area	51,241,052 37	1,573,211 44	52,814,263 81
Traffic Safety Devices	1,977,257 41	1,783 88	1,979,041 29
	<u>\$85,584,016 37</u>	<u>\$5,631,479 63</u>	<u>\$91,215,496 00</u>

Second Bond Issue of \$100,000,000.00 for an Accelerated Highway Program: Chapter 685 of the Acts of 1950 which became effective July 31, 1950 provided for a second bond issue of \$100,000,000.00. Of this amount, \$92,000,000.00 was again available to the Department of Public Works and \$8,000,000.00 was available to the Metropolitan District Commission.

The amount made available to the Department of Public Works was allocated by the aforementioned statute as follows:

Section 4. \$37,000,000.00 for projects to be constructed in the area set forth in the "Master Highway Plan for the Boston Metropolitan Area."

Section 5. \$54,000,000.00 for projects to be constructed in the area set forth in "The Report on Massachusetts State Highway Needs, Exclusive of Metropolitan Boston," established and defined in Exhibit A of House Document No. 1767 (1948) and for traffic studies in urban areas. Not less than \$8,000,000.00 of the total sum is to be expended in each of the four following areas:

- Area 1. West of the Connecticut River
- Area 2. Between the Connecticut River and easterly boundary of Worcester County
- Area 3. Essex, Middlesex and Norfolk Counties, including Route 128
- Area 4. Bristol, Plymouth, Barnstable, Dukes and Nantucket Counties

Also, the Department of Public Works may expend from the total amount \$54,000,000.00, an amount not to exceed \$1,000,000.00 in areas outside Metropolitan

Boston for resurfacing existing highways.

Section 6. \$1,000,000.00 to be expended for traffic safety devices on State highways and roads constructed under the provisions of Section 34 of Chapter 90 of the General Laws.

Section 11. This section provides that detailed progress reports shall be filed with the Governor and the Clerk of the House of Representatives on December 31, 1950, June 30, 1951 and December 31, 1951, and a final report on or before July 31, 1952 relative to all projects undertaken under the provisions of this act.

Section 12. This section provides that all contracts for projects authorized by this act shall be entered into not later than June 30, 1952.

In this connection, it was noted that the total of \$100,000,000.00 of the bonds authorized under this statute had been issued to the date of audit.

The following is a summary of the expenditures and encumbrances incurred under this law to December 31, 1954 as supplied by the department:

	Expenditures to Dec. 31, 1954	Encumbrances Outstanding Dec. 31, 1954	Total to Dec. 31, 1954
Outside Metropolitan Area	\$50,986,317 16	\$1,715,210 07	\$52,701,527 23
Outside Metropolitan Area, Resurfacing	949,588 79	408 31	949,997 10
	\$51,935,905 95	\$1,715,618 38	\$53,651,524 33
Metropolitan Area	27,368,157 24	6,593,671 01*	33,961,828 25
Traffic Safety Devices	886,360 92	2,998 97	889,359 89
	<u>\$80,190,424 11</u>	<u>\$8,312,288 36</u>	<u>\$88,502,712 47</u>

* Includes purchase order for steel, \$278,310.92.

Third Bond Issue for an Accelerated Highway Program: Chapter 556 of the Acts of 1952 effective so far as Sections 1 to 11 inclusive, on July 2, 1952 and Sections 12, 13, 14, and 14A effective on January 1, 1953 provided for a bond issue of \$200,000,000.00. Of this amount \$184,000,000.00 was available for this department and \$16,000,000.00 was available to the Metropolitan District Commission.

The amount made available to this department was allocated by said Chapter 556 as follows:

Section 4. \$74,000,000.00 for projects to be constructed in the area set forth in the "Master Highway Plan for the Boston Metropolitan Area" as established and defined in Exhibit B of House Document No. 1767 of the year 1948.

Section 5. \$110,000,000.00 for projects to be constructed in the area set forth in "The Report on Massachusetts State Highway Needs, Exclusive of Metropolitan Boston," established and defined in Exhibit A of House Document No. 1767 of the year 1948. Said Section 5 allocates the expenditures as follows:

- Area 1. West of the Connecticut River, not less than \$12,000,000.00
- Area 2. Between the Connecticut River and easterly boundary of Worcester County, not less than \$12,000,000.00
- Area 3. Essex, Middlesex and Norfolk Counties, including Route 128, not less than \$12,000,000.00
- Area 4. Bristol, Plymouth, Barnstable, Dukes and Nantucket Counties, not less than \$12,000,000.00

Section 10. This section provides that detailed progress reports shall be filed with the Governor and the Clerk of the House of Representatives on December 31, 1953, December 31, 1954, December 31, 1955 and a final report on or before December 31, 1956 relative to all projects undertaken under the provisions of this act.

Section 11. This section provides that all contracts for projects authorized by this act shall be entered into not later than December 31, 1956.

As of the date of audit bonds amounting to \$40,000,000.00 authorized under this statute had been issued.

A summary of the expenditures and encumbrances made and incurred under this act to December 31, 1954 as supplied by the department follows:

	Expenditures to Dec. 31, 1954	Encumbrances Outstanding Dec. 31, 1954	Total to Dec. 31, 1954
Metropolitan Area	\$ 7,178,833 56	\$29,922,480 43	\$ 37,191,313 99
Outside Metropolitan Area	64,400,577 94	35,951,871 14	100,352,449 08
	<u>\$71,579,411 50</u>	<u>\$65,874,351 57</u>	<u>\$137,453,763 07</u>

Fourth Bond Issue for an Accelerated Highway Program: Chapter 403 of the Acts of 1954, which became effective May 11, 1954, provided for a bond issue of \$150,000,000.00. Of this amount, \$138,000,000.00 was made available to the Department of Public Works and \$12,000,000.00 was made available to the Metropolitan District Commission.

The amount made available to this department was allocated by said Chapter 403 as follows:

Section 4. \$55,000,000.00 for projects in the area set forth in the "Master Highway Plan for the Boston Metropolitan Area," as established and defined in said Exhibit B of House Document No. 1767 of the year 1948.

Section 5. \$83,000,000.00 for projects in the area set forth in "The Report on Massachusetts State Highway Needs, exclusive of Metropolitan Boston," as established and defined in Exhibit A of said House Document No. 1767 of the year 1948. Not less than \$12,000,000.00 of the total sum is to be expended in each of the four following areas:

- Area 1. West of the Connecticut River
- Area 2. Between the Connecticut River and the easterly boundary line of Worcester County
- Area 3. Essex, Middlesex and Norfolk Counties including Route 128 therein
- Area 4. Bristol, Plymouth, Barnstable, Dukes and Nantucket Counties

Section 10. The department shall file detailed progress reports with the Governor and the Clerk of the House of Representatives on December 31, 1955, December 31, 1956, December 31, 1957 and shall render a final report on or before December 31, 1958 relative to all projects undertaken under the provision of this act.

Section 11. All contracts for the projects authorized by this act shall be entered into by the department not later than December 1, 1958.

As at the date of audit none of the bonds authorized under this statute had been issued.

The following is a summary of expenditures and encumbrances incurred under this act as of December 31, 1954 as supplied by the department:

	Expenditures to Dec. 31, 1954	Encumbrances Outstanding Dec. 31, 1954	Total to Dec. 31, 1954
Metropolitan Area	\$ 262,844 71	\$ 5,777,077 06	\$ 6,039,921 77
Outside Metropolitan Area	3,651,461 66	10,959,089 59	14,610,551 25
	<u>\$3,914,306 37</u>	<u>\$16,736,166 65</u>	<u>\$20,650,473 02</u>

Survey by Accounting and Auditing Firm: It was noted that contract No. 5360 was awarded May 19, 1953 to conduct a survey of the office of the Business Agent of the department in order to establish a program increasing the effectiveness and economy of that office. Invoices received under this contract totaled \$29,212.50, and time records maintained by this department indicated that 253 5/8 man-days at an average of \$119.00 per day had been charged from May 20, 1953 to December 31, 1953.

Contract No. 5478 was awarded on September 29, 1953 providing for additional studies on the organization structure of the Department of Public Works (including the Division of Highways, Waterways and Public Beaches). Total cost under this contract was \$55,000.00 and no time records were available to show total hours charged.

Contract No. 5665 was awarded March 12, 1954 to the same firm for additional work in properly correlating the findings and recommendations of the previous studies including evaluation of all departmental positions. The total costs under this contract amounted to \$23,500.00, and departmental time records showed that 200.75 man-days at an average

of \$117.06 per day had been charged.

The total cost of all these surveys was \$107,712.50.

It was learned that four copies of a report of each study were furnished the department as well as many copies of individual sections of the report.

It would seem employment of services of this type by-pass existing statutes, which place such responsibilities with the Comptroller.

In this connection the following statutory citations relating to the duties of the State Comptroller are shown:

Chapter 7, Section 16 of the General Laws states:

"He shall design and install an accounting system for the commonwealth and prescribe the requisite forms and books of account to be used by each department, office, commission and institution of the commonwealth. No form or book of account other than that prescribed as aforesaid shall be used without the approval of the comptroller. He may revise such forms, books or system from time to time. He shall prepare and distribute a book of instructions covering the use and application of said accounting system for the guidance of the various departments, offices, commissions and institutions of the commonwealth."

Chapter 7 - Section 17 of the General Laws also states:

"He shall keep all general books of account and determine the extent and character of subsidiary accounts to be kept by all departments, offices, commissions and institutions of the commonwealth. He shall have full authority to prescribe, regulate and make changes in the method of keeping and rendering accounts. He shall establish in each such department, office, commission and institution a proper system of accounts, which shall be uniform, so far as is practicable, and a proper system of accounting for stores, supplies, materials and products, and may provide, when he deems it necessary, for a continuing inventory thereof. He shall provide such safeguards and systems of checking as will ensure, so far as possible, the proper collection of all revenue due the commonwealth; and where he deems it necessary, shall provide that forms and receipts shall be numbered consecutively, making each such department, office, commission or institution responsible for their use or cancellation."

Damages Due from Contractor's Surety Company: In this connection the previous audit report stated:

"It was noted that a contract awarded on August 29, 1950 in the amount of \$326,710.75 for the reconstruction of a section of State highway in the towns of Holden and Rutland to be completed by September 1, 1951 was abandoned on June 21, 1952 by the contractor due to circumstances beyond his control. The value of the work completed on the contract totaled \$239,161.80 leaving a balance of \$87,548.95. Subsequently the Board on June 24, 1952 authorized the surety on the bond for the contract to proceed with the completion of the previously abandoned contract.

"On August 5, 1952 the Board received a report from an official of the Department which stated, that prior to the abandonment of the project the contractor had completed a section of macadam surfacing of approximately 9,500 feet in Holden and 750 feet in Rutland at a cost to the State of \$22,097.86. This surfacing was subsequently found to be unsatisfactory and unacceptable. To bring this section of road into condition for acceptance the Department and the bonding company executed an agreement, effective August 15, 1952, whereby the bonding company agreed to complete resurfacing with a 1 1/2 inch pavement of bituminous concrete, which it is estimated will cost approximately \$20,000.00. It was also agreed that the Department and the bonding company would each pay 50% of the cost.

"The records indicate that this work was completed in April 1953 at a total cost of \$20,191.80 of which \$10,095.90 will be paid by the Department. It was also understood that action will be taken against the bonding company upon the completion of the contract to recover

"damages for unacceptable macadam surfacing for which the Commonwealth paid \$22,097.86.

"It was noted that on the certificate of completion the date of June 16, 1953 was indicated. On November 19, 1953 a report to the Chief Engineer showed the analysis of the liquidated damages as follows:

Extra time of engineers	
5 due to delay	\$15,832 60
State and private car mileage and meals	2,231 94
Extra time of traffic men due to delay	10,205 00
Liquidated damages assessed	<u>\$28,269 54</u>
Reserve being held	<u>\$18,596 03</u>

"It was further noted that the minutes of the meeting held December 8, 1953 referred to the Holden - Rutland contract No. 4624 as being completed by the Peerless Casualty Company, and it was voted that the work be approved as of June 16, 1953 and further that the sum of \$28,269.54 be assessed as liquidated damages on this contract."

On January 5, 1955 the reserve of \$18,596.03 was still being held and the liquidated damages of \$28,269.54 had not been paid.

Contract No. 5154: This contract was approved January 12, 1954 as completed October 3, 1953. Liquidated damages of \$3,362.13 were assessed against the New Amsterdam Casualty Company because the original contractor failed to complete the work as required under the contract. The work was finally completed by another contractor as authorized by a vote of the Board on June 2, 1953 with the understanding that the original contractor and his surety would be charged with the extra costs. Final payment of \$13,465.50, per court order, was approved June 30, 1954 and payment was made directly to the creditors of the first contractor.

A letter from the Attorney General's office dated June 14, 1954 enclosing check for \$3,362.13 from the New Amsterdam Casualty Company in final settlement for liquidated damages was received and entered in the cash book under date of June 18, 1954.

Contract No. 4477 - Extra Work Order No. 57: Contract No. 4477 was awarded December 30, 1949 for the Boston - Somerville - Sullivan Square Project. In this connection the following figures were taken from extra work order No. 57 which was dated June 15, 1953:

Accepted Bid Price	\$4,133,550 00
Estimated Total Cost of the Contract	5,632,388 75
Total of Extra Work Orders	
Previously Approved No. 1 - 56	
Inclusive	841,114 69
Extra Work Order No. 57 - Approximate	195,794 32

The extra work claim developed as the result of certain expenses arising from the collapse of a portion of the steel structure of the viaduct and for the reconstruction of certain sections and portions of the steel viaduct. The extra was approved at a meeting of the Commissioners held on January 5, 1954. An excerpt from the minutes of that meeting of the Commissioners relating to this matter follows:

"A report from the Chief Engineer, dated December 11, was presented, with reference to the claim of M. DeMatteo Construction Company on their Boston-Somerville (Sullivan Square) contract No. 4477. Part A of this claim includes work between Bent 13 and the south end of the steel work. Part B of the claim includes the rest of the work from Bent 13 to the north end of the steel viaduct, and the rockers and bolsters on Bent 11. In summary, the Chief Engineer recommends that the Board authorize the issuance of an Extra Work Order covering all checked and approved items of work under Part B; that the contractor's claim for payment for general administration and overhead

"in addition to that incurred by extra work be denied; and that the contractor's claim for reimbursement under Part A be taken under advisement when further investigation can be made of the circumstances surrounding the agreement between the contractor and Thomas Worcester Co.

Voted, That the recommendation of the Chief Engineer be approved."

The previous audit report stated in this connection:

"Attention is directed to the fact that payment of this 'extra' has been withheld by the Comptroller's Bureau and it remains unpaid as of the date of audit."

In this connection it was noted that extra work order No. 57 was rescinded by vote of the Commissioners as indicated in the Minutes of the Meeting of May 11, 1954, a copy of which follows:

"A report from the Chief Engineer, dated May 3, was presented. In his report Mr. Gray states that on January 5, 1954 the Board approved an extra work order, reading as follows: Boston-Somerville (Sullivan Square) amounting to \$195,794.32, for reconstructing 'Part B' of the steel viaduct to conform to the redesigns on revision sketches 73, 74, 75, 76, 81, 90 and 94. ('Part B' includes the work from Bent 13 to the north end of the steel viaduct, any work on Bent 13 and work on the rockers and bolsters on Bent 11); M. DeMatteo Construction Company, contractor - Contract No. 4477. He states that in view of the numerous conflicting claims by the contractor and Thomas Worcester, Inc., the consultants who designed and supervised the construction of the project, as well as the question of responsibility for the collapse of a section of the viaduct structure and the cost of re-designing and reconstructing portions of the viaduct, all of which will undoubtedly have to be finally resolved by litigation and court action, it now appears advisable that no official action be taken by the Board relative to approval of the work covered under the above extra work order.

"Voted, that the action of the Board January 5, 1954 approving the above extra work order be rescinded."

Contract No. 4450 - Claims for Additional Services: The previous audit report stated:

"It was stated that a claim was filed with this Department for \$132,285.64 for additional consultants services on Contract No. 4450. This matter has been referred to the Attorney General for his opinion. In this connection the following transcript from the minutes of the Board meeting held on February 16, 1954 was noted:

'A report from Project Engineer Delano, dated February 15, approved by the Chief Engineer, was presented. In his report Mr. Delano states that in connection with contract No. 4450 the consultants Charles A. Maguire & Associates and Fay, Spofford and Thorndike, have performed additional services as listed below, with the amounts incurred:

1. Study of Atlantic Ave. - Commercial St. Route	\$ 1,532 30
2. Estimate of Critical Materials	2,968 06
3. Studies re. fireproofing certain buildings	2,242 98
4. Revision of Contract "C", etc.	36,077 20
5. Revision of plans to save Braman-Dow Building	1,596 18
	<hr/> \$44,416 72

'He states that as the work for all of the above items, except Item 5, was authorized verbally, it now appears that the Attorney General is of the opinion that written authorization must exist before payments can be made to the consultants. In order to establish written authorization for the first four items as listed above, he submits letters which

"have been prepared giving dates when verbal orders were issued. He states that authorization for work under Item 5 was covered in the Department Secretary's letter of June 20, 1950, but that it now seems desirable to outline the method of payment in a letter, which he submits.

Voted, That the five letters submitted be approved and that the Acting Commissioner be authorized to sign same."

The five letters referred to signed by the Acting Commissioner authorizing payments to the firm of consultants for additional services under this contract were examined in connection with this audit, and it was noted that payment for the "additions" have been made.

Massachusetts Turnpike Authority: The previous audit report stated:

"The records of the Board meeting held on October 27, 1953 indicated that it was voted to approve under Section 6 of Chapter 354 of the Acts of 1952, the request that this Department incorporate into the Massachusetts Turnpike Authority the following three partially completed State Highways:

<u>Location</u>	<u>Contract No.</u>	<u>Amount Under Award</u>
Chicopee and Ludlow	5091	\$1,045,208 60
West Stockbridge and Stockbridge	5074	2,208,193 00
West Springfield and Chicopee	5069	1,776,699 20
Total		<u>\$5,030,100 80</u>

"In this connection a letter from the Turnpike Authority dated December 22, 1953 states in part:

'The amount of the reimbursement to the Commonwealth by the Authority will be determined as provided in Section 6 -.'

"Section 6 of Chapter 354 of the Acts of 1952, however, states that the:-

'...the actual cost thereof shall be reimbursed to the Commonwealth to the credit of the Highway Fund from the proceeds of its Turnpike Revenue Bonds.'"

The following information in connection with contracts under these projects is presented:

Contract No. 5069 - Chicopee - West Springfield:

There has been substantial agreement on this contract between the Turnpike Authority and the department on the amount to be reimbursed to the Highway Fund for completion of Bridge substructure. The Authority was billed in the amount of \$1,960,047.49 on February 15, 1955 and for \$3,584.07 on February 25, 1955.

Contract No. 5091 - Chicopee - Ludlow:

Final estimates are now being prepared on this contract and as soon as total cost is agreed upon, the Authority will be billed on this contract.

Contract No. 5067 - Consultants - Springfield By-pass:

Total amount earned by the architect under this contract to date of audit amounted to \$684,463.16. Of this amount it has been determined that \$79,541.73 applies to the "Springfield Connection" and will be assumed by the department. The Authority will be billed for

"the balance of this contract amounting to \$604,921.43 (billed on April 1, 1955). A new contract will be drawn up between the consultant and the Authority covering the remainder of the work (relocation of Route 20).

Contract No. 5074 - Stockbridge - West Stockbridge:

No action has been taken on reimbursement on this contract to date of this audit.

The following contracts are also connected with the toll road construction and costs to be reimbursed will have to be determined at later conferences between the Authority and the department:

<u>Contracts</u>	<u>Cost to Date</u>
No. 4483	\$ 20,935 00
No. 4689	4,345 00
No. 5024	3,000 00
No. 4962))
No. 5290)	5,360 68)
No. 5340))
No. 5823)	51,620 06)
No. 5175))
<u>Agreement</u>	
No. 424	10,372 35
No. 386	1,500 43
No. 389	217,279 39

Director of Accounting in the Business Agent's Section: It was noted that the minutes of the meeting of the Commissioners dated June 22, 1954, contained the following:

"A report from Commissioner Volpe, dated June 22, was presented. In his report Mr. Volpe states that --- Department Business Agent, will terminate his services at the end of this June. He recommends that a contract be made to cover the employment of a Director of Accounting in the Business Agent's Section, effective July 1, 1954, for the period of one year, at a salary of \$8,280.00 per year plus incidental travel, over-time and other expenses.

"Voted, That the recommendation of the Commissioner be approved; that the sum of \$10,000.00 be allotted to cover salary and expenses for the period of one year."

It was further noted that under date of June 22, 1954 a contract No. 5801 was entered into by the Department of Public Works, the pertinent sections of which follow:

"Contract No. 5801
Dated: June 22, 1954
Amount: - \$8,280.00 per year

Contract between the Commonwealth of Massachusetts by the Department of Public Works and -----;

In consideration of the payments hereinafter mentioned to be made to ----- by the Commonwealth of Massachusetts, said ----- agrees to serve the Department under the direction of the Commissioner or the Administrative Assistant to the Commissioner, as a Consultant on the Accounting System of the Department of Public Works and in accordance with the requirements of the Comptroller of the Commonwealth, and in such Consultant's capacity to act as a Director of Accounting for the Business Agent's section of the Department, advising on phases of the work involved in the financial administration of the Department, including all accounting work of the Department requiring the application of

"general engineering principles in a manner consistent with the provisions of the State Law, the terms of federal grants and private contracts and standard accounting practice, in apportioning departmental charges for personal services exercise of purchasing and stock control, stores purchases and issues, equipment rentals and capital outlay on appropriational, organizational and project or activity basis, the approving of payment, the issuing of schedules and checks, and the keeping of receipts, allotments and expenditures, and related work as required.

"For the above-mentioned services, said ----- shall be compensated by the Commonwealth of Massachusetts through the Department of Public Works, at the rate of Eight Thousand Two Hundred and Eighty Dollars (\$8,280.00) per year for the period July 1, 1954 through June 30, 1955, payments to be made semi-monthly, pro-rated on the basis of calendar days, said period to include two (2) weeks vacation time if taken with permission within the last six weeks of this contract period.

"The actual sums paid for the incidental travel expenses such as costs of transportation, meals and hotel expenses incurred by said ----- while traveling and the allowance for use of personal car in connection with the work and services hereinbefore provided, shall be paid by the Commonwealth in accordance with the rates and regulations prevailing in the Department.

"It is further understood and agreed that this contract shall be subject to cancellation upon thirty (30) days written notice from the Department of Public Works."

Attention is called to the fact that the contract was signed on behalf of the Department of Public Works by the Commissioner and one Associate Commissioner who voted to authorize it as indicated in the Minutes of the Meeting of June 22, 1954.

It was understood that the position of Business Agent, while being held previously was under Civil Service. For all practical purposes it would appear that Mr. ----- is carrying on duties similar to those performed by his predecessor. Serious question is raised as to the propriety of contracting for Personal Service to carry on the duties formerly performed by a Civil Service employee.

Department Owned Steel Sheeting and Piling: The Stores Material Control Account for this audit period indicates that certain charges were made to the appropriation accounts in prior fiscal years which resulted in an overstatement of \$295,125.37 in highway construction costs during the three fiscal years ended June 30, 1954 because of the failure of this department to bring onto its stock records the inventory of steel sheeting and piling remaining after the completion of the highway projects during these periods. The purchases of steel sheeting and piling charged directly to the appropriation accounts totaled \$956,863.52, as follows:

1952 Fiscal Year	\$676,949 90
1953 Fiscal Year	236,596 65
1954 Fiscal Year	<u>43,316 97</u>
Total	<u>\$956,863 52</u>

The inventory of steel sheeting and piling was \$295,125.37 on January 5, 1955, the date of audit. Of this amount, the department records indicate that \$214,663.23 was brought onto its stock records by crediting the various Bond Issue and Special Appropriation Accounts originally charged with the purchases of steel in prior fiscal years. These credits were recorded on the books, as follows:

<u>Period</u>	
June, 1954 (1952 - 1953 purchases)	\$ 35,222 15
July 1954 to Dec. 31, 1954 (1952 - 1953 purchases)	85,957 40
Jan. 1955 to Mar. 31, 1955 (1952 - 1953 - 1954 purchases)	<u>93,483 68</u>
Total	<u>\$214,663 23</u>

The balance of the inventory amounting to \$80,462.14 comprises \$22,693.17 of surplus steel sheeting and piling remaining from completed projects in the Boston area and \$57,768.97 of steel sheeting on loan and on rental to contractors engaged on State highway projects throughout the Commonwealth. This department-owned steel will be brought onto the stock records upon its return to the department storehouses.

It was also noted that all of the steel sheeting and piling was delivered to the department under the terms of a contract agreement made by the Commonwealth in 1951 to prevent serious delays in the expanded highway program because of steel shortages. This contract was canceled by mutual consent as of February 14, 1955.

It was the practice of the Department of Public Works as part of the special provision of certain highway contracts, to provide contracts with steel pilings which are used in the construction of the project foundations and steel sheeting which is normally used as temporary support for the sides of an excavation or for cofferdams. Except for cofferdams where sheeting was frequently left in place permanently, the steel sheeting was usually removed by the contractor at the completion of the project and returned to the department where it was made available for re-issue to other contractors after that portion of the steel which had been damaged by pile-drivers had been removed. The contractor would also return all sheet piling not used in the construction of the project as it was the practice of the department to provide for contingencies in addition to contract requirements.

It is understood from information furnished by the Department of Public Works that the control of its steel issued to each contractor and its subsequent disposition would be accounted for by the resident engineer in his report upon the completion of each project. It was noted, however, from the department records, that these resident engineers' accounting reports of department steel sheeting and piling were never recorded in a stores control book or on any other accounting control record until the beginning of the 1955 fiscal year, when approximately \$350,000.00 of department steel remained of purchases totaling \$956,863.52. Because the department failed also to maintain a master index of the highway projects receiving department steel for construction, or temporary use, it was difficult to verify the resident engineers steel reports with respect to the following:

- a) Department steel used in construction of highway projects
- b) Department steel damaged on highway projects
- c) Department steel lost on bridge projects
- d) Department steel perpetual inventory book value prior to its transfer to Stores Material Control Account
- e) Department Steel stolen from highway projects or department storehouses

It was further noted that the only steel inventory control records maintained by this department prior to the 1955 fiscal year were physical inventory reports of the various types of steel sheeting and piling in certain districts which had been submitted by District Engineers to the Construction Division which required this information at irregular intervals in connection with the issuance of department steel.

These inventory reports ceased shortly after the receipt of the following department order sent to the District Engineers:

"District Highway Engineer

June 1, 1954

Dear Sir:

Reference is made to your letter of April 1, 1954, relative to State-owned steel sheeting and H-piles furnished to projects in your district.

All such material on hand as of June 30 is to be taken into Stores Material. It is necessary that accurate records be available for the Department Business Agent at that time.

Accordingly, please furnish the Construction Office with an accurate tally of all this material now on loan or in storage in your district.

Very truly yours,

/s/ Chief Engineer

by

Executive Assistant "

A tabulation of department steel sheeting and piling on hand as of March 31, 1955, indicates that 14,222,383 lbs. of steel valued at \$661,738.15 was disposed of from July 1, 1951 to March 31, 1955, under inventory accounting methods which failed to conform to the mini-

mun accounting standards required in the control of State-owned property during the 3-year period ended June 30, 1954. A tabulation follows:

	<u>Steel Piling</u>		<u>Steel Sheeting</u>	
	<u>Lbs.</u>	<u>Value</u>	<u>Lbs.</u>	<u>Value</u>
Total Purchases	<u>13,892,130</u>	<u>\$632,955 76</u>	<u>6,274,507</u>	<u>\$323,907 76</u>
Inventories Mar. 31, 1955:				
On Books:				
All Districts	1,625,386	\$74,166 48	2,734,283	\$140,496 75
Not on Books:				
Boston District	216,270	9,840 29	230,908	23,852 88
Loan to Contractors	-	-	725,545	36,857 86
Rental to Contractors	-	-	411,862	20,911 11
	<u>1,841,656</u>	<u>\$84,006 77</u>	<u>4,102,598</u>	<u>\$211,118 60</u>
Sales:				
To Contractor	<u>48,230</u>	<u>\$2,218 58</u>	-	-
To Salvage Dealers	-	-	29,678	\$1,514 79
Construction, etc.	<u>12,002,244</u>	<u>\$546,730 41</u>	<u>2,142,231</u>	<u>\$111,274 37</u>
Total	<u>13,892,130</u>	<u>\$632,955 76</u>	<u>6,274,507</u>	<u>\$323,907 76</u>

The following statement shows the steel piling and sheeting left in place as of March 31, 1955, as compiled from department records and the report from the District Highway Engineers to the Deputy Chief Engineer:

	<u>Latest Unit Price</u>	<u>*Compiled from Dept. Records</u>	<u>District Highway Engineers Reports</u>	<u>Variance Unaccounted</u>
Steel Piling:				
B. P. 14	.0455	10,435,815 lbs.	9,865,749 lbs.	570,066 lbs.
B. P. 12	.0460	1,265,634 lbs.	1,339,755 lbs.	(83,121)lbs.
B. P. 10	.0455	309,795 lbs.	294,496 lbs.	15,299 lbs.
		<u>12,002,244 lbs.</u>	<u>11,500,000 lbs.</u>	<u>502,244 lbs.</u>
Steel Sheeting:				
D. P. 2	.05075	1,629,573 lbs.	1,795,486 lbs.	(165,913)lbs.
Z. P. 38	.05425	218,253 lbs.	131,653 lbs.	86,600 lbs.
A. P. 3	.05175	185,148 lbs.	171,108 lbs.	14,040 lbs.
C. P. 40-41	.05700	80,817 lbs.	22,651 lbs.	58,166 lbs.
F. C. 31-34- 35-37	.08950	28,440 lbs.	-	28,440 lbs.
		<u>2,142,231 lbs.</u>	<u>2,120,898 lbs.</u>	<u>21,333 lbs.</u>
Totals		<u>14,144,475 lbs.</u>	<u>13,620,898 lbs.</u>	<u>523,577 lbs.</u>

* Deliveries per letter from Bethlehem Steel Company
Physical Inventories taken by Department Mar. 31, 1955.

The value of the unaccounted for steel is \$25,675.90.

A review of the security measures taken to safeguard steel sheeting and piling at the several district storehouses indicate that inadequate protection methods now in effect at certain storehouses may result not only in losses of State-owned steel but also of other stores material unless the department takes immediate action to correct this condition. The following letter covers items referred to:

"Chief Storekeeper
 Director of Accounting
 Security of stores material

April 11, 1955

During a conference with the State Auditors on April 5, 1955, I was interrogated as to what security I have requested in the past for fencing in the perimeter of several of our storage areas where vast amounts of steel sheeting and stores material do not have any protection from pilferage. Below are a list of the areas without protection.

- District #1 At the old Lee barracks has a large amount of guard rail posts, sheet piling, manhole covers and frames and curbing.
- District #2 At Locust St., Florence has a large quantity of new lumber, sheet piling, manhole covers and frames and traffic sign posts.
- District #3 At Westminster, guard rail post, fittings and cable, anchor blocks and curbing.
- District #4 At Chelmsford, sheet piling, lumber, salt and curbing.
- District #6 At Myles Standish, loam, sheet piling, reinforced concrete culvert pipe, curbing, I beams, manhole grates and frames, creosoted wooden piles, culvert pipe and lumber.

The only areas protected by fencing where sheet piling is stored are Hogan's Pit, Rowley, District #5, Lakeville, District #7 and the D. Street garage, South Boston.

Reference is made to my letter dated June 8, 1953, to the Assistant Business Agent in which mention was made pertinent to the above condition.

Since this subject of steel sheeting and steel piling is receiving considerable attention in this audit I feel that you should be informed of all the facts in this matter.

Sincerely yours,

CL/cs

/s/ Chief Storekeeper

It was also noted that the department steel sheeting on loan and on rental to contractors totaling \$57,768.97 as per the most recent tabulation does not appear on the department stock control records as a transfer of state-owned property. Considerable difficulty was experienced in establishing the value of steel loaned and rented to contractors because of the department's policy of crediting "Stores Materials Control" account with steel delivered to contractors for construction, loan or rental purposes and charging this account for steel returned. To obviate the necessity of the Stores Control Section contacting the Construction Division for the purpose of determining which issues are for construction and which are for temporary use only, the Commission on Administration and Finance should be requested to review the stock accounting control procedures and possibly to provide the Stores Material Section with a control record of State-owned property at all times.

The accrued rental income from steel sheeting on rental to contractors, as of January 5, 1955, was \$1,620.00.

Alteration of Needham-Wellesley Contract #5529: It was noted that a change in contract specifications was authorized by the department at the request of a contractor in connection with a contract for the reconstruction of Route 128 in the Towns of Needham and Wellesley, which subsequently resulted in a savings to the contractor of approximately \$35,280.00. The records, however, also indicated that no portion of this reduction was passed on to the Commonwealth. The authorization for the contract alteration was based partly on engineering considerations and partly to eliminate the cross-hauling of ledge rock excavated from the Metropolitan District Commission Aqueduct area to the peat bog area, about one mile distant and of cross-hauling ordinary borrow from the nearest borrow pit presently located near the peat bog area to the Highland-Central Avenues and Metropolitan District Commission Aqueduct area, about three-quarters of a mile distant. The location of these areas appear on the project plans and specifications near the following stations:

	Route Stations
Metropolitan District Commission Aqueduct area	193 to 209
Highland-Central Avenues to Metropolitan District Commission Aqueduct area	178 to 193
Peat Bog area (Kendrick St. to Highland Ave.)	139 to 156
Borrow Pit area (Kendrick St. to Highland Ave.)	141 to 156

The engineering considerations, the description of the change in the contract specifications, and other pertinent facts appear in the following department report:

COPY

July 1, 1954

NEEDHAM-WELLESLEY

Disposal of Class A Rock

About two weeks ago you advised that Commissioner Sheridan had called you concerning a report which he had received about the Needham-Wellesley job. Commissioner Sheridan had advised you that it was his understanding that the contractor was being permitted to place gravel borrow in fills in lieu of crushed stone. I explained very briefly to you my understanding of the question involved, and I am pleased to submit at this time further details.

On May 7, 1954 the contractor directed a letter to District Highway Engineer --- requesting permission to dispose of Class A Rock in the area from the M.D.C. aqueduct to Highland Avenue, instead of being required to use it for backfilling areas from which peat is being excavated. In lieu of using rock for peat backfill, he requested to use granular material which meets the specifications for peat backfill.

The most important reason for making this request was that the hauling of ledge to the peat area and the hauling of ordinary borrow to the area between the aqueduct and Highland Avenue would necessitate crossing present Route 128, which is being kept open to traffic and which is heavily traveled. The contractor pointed out that with summer traffic approaching, delays could be anticipated and possible hazardous traffic conditions encountered.

On May 17, 1954 District Highway Engineer --- forwarded a copy of that letter with the following comments:

"Attached is a copy of letter dated May 7, 1954 from ---- Construction Company to me in regard to disposal of Class A Rock. Although the contract specifies that the Rock will be placed in Peat Excavation, I am of the opinion that better results can be obtained, and there would be much reduced interference with the heavy traffic volume on Rte. 128, if the request is granted.

"I realize that such a decision might cause criticism from other bidders on the work, but I am very definite in my opinion that the advantages of his plan of operation would outweigh any criticism from such sources. What is most important is that we take out as close to 100% of the peat as called for, as it is possible to do.

"I think that the paragraph in the 'specs' that is in question should have been omitted as there is sufficient coverage of construction details in the regular standard specifications."

I concurred in the opinion of the District Highway Engineer, as expressed in the above letter, and authorized the waiving of that portion of the specifications which required rock excavation to be placed in peat excavation as backfill since granular material is generally used for peat backfill and will do just as good a job.

As I previously stated, I can only assume that Commissioner Sheridan is confused when he talks about crushed rock and that he must mean the disposal of rock excavation. I have been told that the excavated rock is breaking into rather small pieces during dynamiting operations and that this material is well suited for use in ordinary fills. Mr. ---- has also assured me that all of the rock excavation will be used on the project.

The waiver of specifications granted will not affect the contract prices in any way since it merely grants the contractor the privilege of placing the rock in locations nearer to his excavating site than that required by the contract. No additional borrow will be required because of the change.

Respectfully submitted,

/s/ Chief Engineer

The savings which accrued to the contractor following the alteration of the contract specifications was obtained through the reduction of trucking costs brought about by the decrease in mileage of hauling 180,000 cubic yards of material a shorter distance under the terms of the new specifications, as follows:

Description of Materials	Mileage Distance		
	Old Spec.	New Spec.	Decrease
90,000 cubic yards Rock Excavation*			
Aqueduct to Peat Bog (Sta. 193 to 139)	5,400 ft.		
Aqueduct to Highland-Central Avenues area (Sta. 193 to 178)		1,500 ft.	3,900 ft.
90,000 cubic yards Ordinary Borrow			
Borrow Pit to Highland-Central Avenue area (Sta. 141 to 178)	3,700 ft.		
Borrow Pit to Peat Bog (Sta. 141 to 139)	_____	200 ft.	3,500 ft.
Average Decrease in Handling Mileage			<u>3,700 ft.</u>

* Of 100,000 cubic yards of rock excavated at the Aqueduct Area only 10,000 cubic yards was hauled to the Peat Bog Area.

The reduction of trucking costs to the contractor resulting from the average decrease in hauling mileage of the above 180,000 cubic yards of material, based on rates established by the Massachusetts Department of Public Utilities for rentals of common carriers, amounted to \$35,280.00 and was computed as follows:

Total Cubic Yards of Material	<u>180,000</u>
Rate per Cubic Yard per First Mile of Haul	<u>28 cents</u>
Average Decrease in Hauling Mileage	<u>3,700 feet</u>
180,000 x .28¢ (1 mile) = \$50,400.00 x 70%	
(3,700 ft.) =	<u>\$35,280.00</u>

It was noted from the resident engineer's diary that this alteration was not authorized by the Department of Public Works until May 26, 1954. However, information furnished by the resident engineer's office appears to indicate that this contractor started to dispose of the rock excavation in the Highland-Central Avenues six weeks prior to the Department approval of the new specifications. Below is a summary:

Disposition of Rock Excavation from the M.D.C. Aqueduct Area as Reported by Resident Engineer's Office as of March 23, 1955

	Cubic Yards
Total Rock Excavation from M.D.C. Aqueduct Area (Station 193 to Station 209)*	<u>100,000</u>
Disposition:	
April 15, 1954 to July 28, 1954:	
Highland-Central Avenues to M.D.C. Aqueduct Area (Station 178 to Station 193)	<u>90,000</u>

June 7, 1954 to June 21, 1954:
 Peat Bog Area - Kendrick Street to Highland
 Avenue (Station 139 to Station 156)

10,000

* Note: The distance between each station is
 100 feet. The distance between
 stations 178 and 193 is 1,500 feet.

The files of the Department of Public Works indicate that hundreds of extra work orders representing contractors' claims for additional costs incurred as a result of departmental changes in contracts or specifications are approved annually by the department for sums of money which involve hundreds of thousands of dollars. Yet, when this department was asked why the Commonwealth did not receive a credit from this contractor, whose trucking costs decreased substantially as a result of a departmental change in contract specifications, the following reply was received from the Commissioner, which reads in part, as follows:

".....The Chief Engineer's decision resulted in no increased cost to the Commonwealth since all of the rock excavation was utilized and no increase in borrow quantity was involved due to the slight change in procedure.

"Paragraph A2-2, Class A Rock Excavation, for the special Provisions states "Work under this item shall conform to the pertinent requirements of Section A-2, and so much of the excavated material as possible and as directed shall be used for backfilling the areas from which peat is excavated."

"It is considered that the words "as directed" would permit the Chief Engineer to use sound judgment in the disposition of the rock excavation. It is further considered that a change in the location of the disposal site for excavated material would not require nor allow the Department to negotiate a new unit price for an item already covered by a unit bid contained in the contract."

It would appear from the foregoing that there is a lack of proper judgment in the preparation of department contracts since there is no provision which permits the Department of Public Works to receive credit from a contractor for reduction in costs resulting for a change in contract or specifications. It is recommended that the Commission on Administration and Finance review the situation so that it may possibly be determined whether amendments are necessary to permit the Commonwealth to share or receive savings resulting from contract alterations.

New Construction Project Awarded Without Competitive Bidding: It was noted that the department awarded a new construction project estimated to cost \$343,012.35 for 700 feet of roadway construction to a contractor currently engaged on adjacent construction of the John F. Fitzgerald Expressway in Boston without first having requested competitive bids from other contractors for the new project listed by the department as the Extension from High Street to Oliver Street, Boston. This new construction was classified by the department as an alteration of the adjacent construction project and was approved by the Commissioners at their board meeting, as follows:

Thursday, December 16, 1954

"Alteration No. 2 on B. Company's Boston (Fitzgerald Expressway) contract No. 5071 was approved. This alteration covers the extension of substructures, surface roads, and approaches from High Street to Oliver Street, in order to facilitate the construction of the Expressway to Oliver Street in the midst of a bad traffic and utility situation, so that the Expressway can be completed and opened to traffic much sooner; estimated cost \$343,012.35. Extra Work Order No. 14 on contract No. 5071, amounting to approximately \$25,218.00 for supplying and installing material and labor to complete certain items of work in connection with the extension of the substructures, etc., was also approved."

The reasons for adding the above extension to contract D-1, H-1, (#5071) appear in the following department letter:

COPY

Chief Engineer

The Commissioners

December 8, 1954

JOHN F. FITZGERALD EXPRESSWAY
CONTRACT D1, H1, (#5071)
EXTRA WORK ORDER #14

Transmitted herewith is correspondence dated December 6, 1954 from our District Highway Engineer, Mr. -----, and from the B. Company. This correspondence pertains to the proposed extension under an alteration of the D1, H1 Contract of the substructure, surface roads and approach work required to provide for a completion of the John F. Fitzgerald Expressway between High Street and Oliver Street under a concurrent superstructure contract and a subsequent paving contract.

As noted by Mr. -----, in his letter of December 6 on Alteration #2, this method of constructing this section provides the most practical method of completing the work proposed.

It will definitely insure completion of this short section of the Expressway at the earliest possible date, and, thus, permit opening of the Expressway to this point many months in advance of opening should the work in question have to be advertised and let out separately to another contractor.

Most of the work is covered by existing contract items, the prices for which were submitted on April 8, 1952 and which prices, therefore, can be considered favorable to the Department as of this date.

At this location, also there is a definite traffic problem at Atlantic Avenue because of the Expressway construction and attendant changes to the utilities stemming from our work, which problem could most readily be resolved by having one contractor only working in this area.

Concerning Extra Work Order #14, which provides for payment for those items of work necessary to the alteration and which are not covered by the existing contract #5071 for the D1, H1 section, prices quoted by the B. Company appear reasonable for the work involved.

I respectfully recommend for your consideration and approval Alteration #2 and Extra Work Order #14 under Contract #5071 covering the proposed extension of the substructures, surface roads and approaches for the section of the Expressway from High Street to Oliver Street, the approach work including temporary ramps to permit opening the Expressway to this location at the earliest possible date.

Respectfully submitted,

/s/ -----
Chief Engineer

The department records further indicate that an additional \$350,000.00 was allotted on January 25, 1955 to finance the cost of the extension of the expressway. A copy of the department communication requesting this allotment follows:

COPY

-----, Construction Engr.

January 5, 1955.

Chief Engineer

BOSTON (JOHN F. FITZGERALD EXPRESSWAY) #5071
Contracts D1 & H-1 Non-Fed. Aid (1950 Bond Issue (Chap. 685)
Additional Assignment of Funds

An additional assignment of funds will be required for the completion of the Boston (John F. Fitzgerald Expressway) "D-1" and "H-1" project, contract #5071. The net deficit is approximately \$350,000.00.

Alteration No. 2 for extending substructures, surface roads and approaches from High Street to Oliver Street was approved by the Board on December 16, 1954. The estimated cost for this alteration is in the amount of \$343,012.35. Contingencies will bring the additional fund requirements for this work to approximately \$350,000.00.

It is recommended that the Board approve an additional assignment of funds in the amount of \$350,000.00 for the Boston (John F. Fitzgerald Expressway) "D-1" and "H-1" project, contract #5071.

Respectfully submitted,

/s/ -----
Construction Engineer

It was noted, however, in connection with the additional work involved in the construction of the expressway extension for which \$350,000.00 was allotted the department filed a "Notice of Intention" with the Comptroller's Bureau reporting the estimated cost of the extra work order (No. 14) necessitated by the construction of the proposed extension to amount to only \$25,218.00. Department officials stated that the balance of the construction involved in this addition to the expressway consisted of work or materials similar to that listed in the original contract executed April 15, 1952, and therefore, would be paid at the contract unit prices established approximately thirty-two months prior to the Board's approval of the extension to the expressway. Consequently, the department officials pointed out, the only "extra work" connected with the extension construction are the non-contract items which consist of work or materials not employed or utilized in the construction of the D-1 and H-1 sections of the contract.

The department's official definition of "Extra Work" reads as follows:

"Work or materials for which no price agreement is contained in the contract and which is deemed necessary for the proper completion of the improvement."

Apparently this definition of "Extra Work" conflicts with the following definition received from the Division of Building Construction in the Commission on Administration and Finance:

COPY

THE COMMONWEALTH OF MASSACHUSETTS

Commission on Administration and Finance

Division of Building Construction

38 Chauncy St., Boston 11, Mass.

March 25, 1955

Department of the State Auditor
State House
Boston, Massachusetts

Dear Sir:

In response to a request of a representative of your office as to the definition of extra work under a contract, the following is the conception of extra work as practiced by this Division:

Extra work is any work which the contractor is ordered to perform as a result of additions or alterations to the contract plans and specifications.

Very truly yours,

/s/ -----
Deputy Director of Building Construction

The department's practice of filing "Notices of Intention" with the Comptroller's Bureau which list as "Extra Work" only the cost of non-contract items appearing in the preliminary estimate of the construction cost of the addition to the contract results in obstructing the primary purpose of General Law - Chapter 29, Section 20A, which is to provide a public record of the total estimated costs of extra work to be performed in connection with the proposed addition or alteration to an existing contract prior to its approval by the department.

As noted previously the extra work order filed by the department in connection with the cost of extra work on the Extension from High Street to Oliver Street, Boston listed only the non-contract price items which amounted to only 7.2% or \$25,218.00 of the total amount allotted of \$350,000.00 by the department to finance the construction of that extension. It would appear that by not submitting the information in its entirety the purpose of Section 20A of Chapter 29 of the Tercentenary Edition of the General Laws are not being entirely complied with:

"Section 20A. No order for, or claim for payment for, extra work or materials, furnishings or equipment, in addition to an existing contract for the construction or repair of any structure or of public works of any nature whatsoever or for equipment or furnishings, shall be approved by any official, board, department or commission on behalf of the commonwealth until one week after notice of intention to act upon such an order or claim shall have been filed by him or it with the comptroller; provided that in the case of any such order estimated to involve a cost of less than one thousand dollars and in the case of any such order necessitated by extreme emergency involving the health or safety of persons or damage to property or to work in progress, notice of the approval of such order may be filed after the work has been commenced or completed, but such notice shall be so filed as soon as practicable, with a brief statement as to the character of the extreme emergency, if any, and in any event such notice shall be filed before final payment is made on the contract to which the order or claim for extra work or payment relates. The foregoing requirements shall not apply to change in quantities of work or materials covered at unit prices by an item or items in any such original contract, nor to work other than extra work, for which payment is specifically provided in the contract or specifications. Every notice under this section shall contain the number or other designation of such contract, and of the total amount of orders or claims previously approved for payment, and of the character and location of work proposed or included under each such order or claim, and of the estimated cost or amount under each such order or claim. Said notices shall be entered by the comptroller upon a docket and shall be open to public inspection.

"No such order or claim shall be split or divided for the purpose of evading any provision of this section."

The construction items, excluding contingencies and traffic police, omitted from the extra work order applicable to the expressway extension because the department agreed to remunerate the contractor at unit prices appearing in the original contract for the construction of the D-1 and H-1 sections in preference to a lump sum price for the entire section amount to \$318,459.85 and are listed in the following preliminary estimate prepared by the architects for items to be paid at original contract prices.

"1952" Bond Issue

The Commonwealth of Massachusetts

Order No. (Chapter 556)

Department of Public Works

100 Nashua St. - Boston, Mass.

- Preliminary Estimate -

Town - City .. Boston ..

Road .. John F. Fitzgerald Expressway ..

Year

Class .. High Street to Oliver Street ..

19.....

Contract .. D1-H1 Proposed Extension:
Existing Items ..

Increases ..

Date .. November 30, ..

1954.....

Item No.	Quantity	Unit	Description	Unit Price	Amount
A2-5A	5,700	C. Y.	Unclass. Excav. for Roadway	\$ 1 30	\$ 7,410 00
A2-5B	8,100	C. Y.	Unclass. Excav. for Structures	7 00	56,700 00
A3-2A	1,050	C. Y.	Trench Excavation (0' to 8')	7 00	7,350 00
A3-2B	125	C. Y.	Trench Excavation (over 8')	7 00	875 00
A3-7	6	Ea.	C.B. or M.H. Abandoned	25 00	150 00
A6-1A	12,600	C. Y.	Ordinary Borrow	80	10,080 00
A6-2A	6,700	C. Y.	Gravel Borrow	2 00	13,400 00
A6-3	200	C. Y.	Sand Borrow	3 50	700 00
A13-1	15,500	S. Y.	Fine Grade, Roll & Finish	10	1,550 00
B2-1	2,325	Tons	CR. Stone for Roadway Base Course	3 00	6,975 00
B3-1	16,600	Gals.	Bit. for Roadway Base Course	14	2,324 00
B4-1	25	C. Y.	Cem. Concrete Base Course	20 00	500 00
B4-2	25	C. Y.	H.E.S. Cem. Conc. Base Course	23 00	575 00
B10-1	5,000	Lbs.	Cal. Chloride for Surf. Treatment	05	250 00
B11-3	200	Gals.	Bit. for Tack Coat	40	80 00
B16-11	10	Tons	Bit. Conc. for Patching	15 00	150 00
B18-1	1,620	Tons	C1. I Bit. Conc. Pave., Type I-1	7 00	11,340 00
C2-1	5	MFBM	Lumber Sheeting	200 00	1,000 00
C5-1B	1,850	C. Y.	C1. A Cem. Conc. Masonry (Ftgs, Inverts, App. Slabs)	34 00	62,900 00
C5-1C	980	C. Y.	C1. A Cem. Conc. Masonry (Abutments & Ret. Walls)	40 00	39,200 00
C5-2	50	C. Y.	C1. B. Cem. Conc. Masonry (Misc.)	30 00	1,500 00
C5-3	1,050	C. Y.	C1. C. Cem. Conc. Masonry (For Fill, Etc.)	34 00	35,700 00
C5-7	278,500	Lbs.	Steel Reinf. for Structures	105	29,242 50
C10-1	1,000	S. Y.	Bituminous Damp-Proofing	60	600 00
C29-1	800	L. F.	Steel Piles Driven (Piles by DPW)	3 00	2,400 00
D1-1	17	Ea.	Catch Basins, Complete	175 00	2,975 00
D1-2	4	Ea.	Manholes, Complete	175 00	700 00
D1-5	3	Ea.	Manholes (City of Boston Std.) Complete	350 00	1,050 00
Sub-Total					\$297,676 50

Item No.	Quantity	Unit	Description	Unit Price	Amount
			Brought Forward		\$297,675 50
D4-1C	74	L. F.	10-Inch Vit. Clay Pipe)	\$ 2 50	185 00
D4-3A	144	L. F.	12-Inch Reinf. Conc. Pipe)	2 75	396 00
D4-3B	252	L. F.	15-Inch Reinf. Conc. Trench-Pipe) ing not	3 25	819 00
D4-3C	12	L. F.	18-Inch Reinf. Conc. Pipe Included	5 00	60 00
D4-5A	192	L. F.	6-Inch Hvy. Wt. Cast Iron Pipe)	3 00	576 00
D4-5B	72	L. F.	10-Inch Hvy. Wt. Cast Iron Pipe)	6 00	432 00
D4-7A	96	L. F.	10-Inch V. C. or CC Pipe)	1 50	144 00
E5-1B	220	L. F.	Chain Link Fence (48")	3 00	660 00
E5-2C	3	Ea.	Chain Link Gates W/Posts (48")-4' Wide)	50 00	150 00
E11-2	600	L. F.	Steel Beam Highway Guard-Hds.	3 00	1,800 00
F1-7	2,370	L. F.	Granite Curb, Type VA4 - Straight	2 85	6,754 50
F1-8	250	L. F.	Granite Curb, Type VA4 - Curved	3 80	950 00
F1-18	336	L. F.	Granite Curb, Type VB Str. (5" x 16") Bridge	3 60	1,209 60
F3-1	9	Ea.	Granite Curb Inlets (Straight)	30 00	270 00
F3-2	1	Ea.	Granite Curb Inlet (Curved)	36 00	36 00
F10-1	710	L. F.	Curbing Removed & Reset	1 20	852 00
F11-1	740	L. F.	Curbing Removed & Stacked	60	444 00
F11-2	1	Ea.	Curb Inlet Removed & Stacked	8 00	8 00
F11-3	15	Ea.	Curb Corners Removed & Stacked	5 00	75 00
F12-1	1	Ea.	Curb Inlet Removed & Reset	15 00	15 00
F13-1	1	Ea.	Curb Corner Removed & Reset	10 00	10 00
G1-1	140	S. Y.	Granolithic Walks	3 75	525 00
G2-1	95	Tons	Type I-1 Bit. Conc. Walk Surface	9 75	926 25
J1-1D	84	L. F.	12-Inch Cast Iron Water Main	9 00	756 00
J1-1G	36	L. F.	20-Inch C. I. Pipe for High Pressure Fire Ser.	35 00	1,260 00
J1-3E	60	L. F.	20-Inch C. I. Pipe - HPFS Removed & Relaid	20 00	1,200 00
J2-2B	2	Ea.	Hydrants Removed & Stacked	50 00	100 00
J4-5A	2	Ea.	6-Inch Gates & Gate Boxes, Removed & Stacked	20 00	40 00
J6-5C	2	Ea.	C. I. Plugs for Water Main (8")	20 00	40 00
J6-5D	2	Ea.	C. I. Plugs for Water Main (10")	20 00	40 00
J6-5E	2	Ea.	C. I. Plugs for Water Main (12")	25 00	50 00
					<u>\$318,459 85</u>

Subsequently, many of the extension construction items omitted from the extra work order filed by the department appeared as "Over-Runs" on the resident engineer's report for work performed on the above contract for the month of April 1955. The balance of the above items will probably appear as the work is done in the succeeding months. Since the term "Over-Runs" is normally employed to report the excess of actual quantities

used in construction over the estimated quantities listed in the preliminary estimate for the construction of the projects in the original scope of the contract the excessive quantities appearing in the "Over-Run" column were noted by the Comptroller's Bureau and a letter of inquiry was sent to the department. Upon notification from the department that the "Over-Runs" in the April 1955 voucher included expressway extension construction items, the Comptroller's Bureau returned the voucher and sent the following communication to support their non-payment action, as follows:

COPY

June 8, 1955

John A. Volpe, Commissioner
Department of Public Works
100 Nashua Street
Boston, Massachusetts

Dear Sir:

I have a letter dated 6/2/55, signed by ----- Chief Engineer, which is in reply to my letter of May 27, relative to Sch. 1089, Voucher 3422, B. Co. in the amount of \$95,972.86 on Contract #5071.

You state that the overruns include items which were included and set forth in your Alteration #2.

We have had considerable correspondence on this item and wish to advise that the opinion of this office is the same as stated to you in our letter of January 13, which was that the work referred to comes within the provisions of General Laws, Chapter 29, Section 20A.

Accordingly, we are returning this schedule to you.

Very truly yours,

/s/ Fred A. Moncewicz
Comptroller

By Deputy Comptroller

The department practice of classifying additional work resulting from "Alterations" or "Additions" to the original construction contract as "Over-Runs" because the department elected as its method of payment unit cost prices present in the original contract for the same character of work in place of a lump sum price has resulted in understatement of "Extra Work" orders totaling hundreds of thousands of dollars annually.

To correct the distorted financial picture of certain construction projects of which this Extension represents only one instance the Commission on Administration and Finance is urged to make arrangements to define those construction costs that come within the categories of "Extra Work" and "Over-Runs".

WALTER E. FERNALD STATE SCHOOL

REPORT NO. 55-94

Farm Report: Previous audit reports have commented on the difficulty of making complete audits of farm reports because of the inaccuracies which they included.

In this connection the farm report for the 1953 year was examined and again several errors and inconsistencies were noted. These include the following:

1. The Farm Products to the Storeroom and the Farm Production Accounts in the general ledger were not in agreement with the comparable items in the annual farm report.
2. Farm Sales in the farm report were not in agreement with the farm sales as appearing in the general ledger.

3. The analysis of the Monthly Animal Census reports included many errors between the beginning and ending inventories. These reports were not in agreement with the farm report.

It is, of course obvious, because of the foregoing that the 1953 farm report is of very little value. It is, therefore, again urged that the farm records and the annual farm report be henceforth checked more accurately. It is further suggested that proper methods of internal control be practiced.

Funds of Patients' on Parole: As of January 10, 1955, there were 79 employed paroled patients for whom the Commonwealth functions as trustee. It is the present policy for such patients to have their own savings bank accounts, for which this institution serves as the trustee.

In such instances, statements showing the respective wages, expenditures and savings are required to be submitted monthly of the various employers.

In this connection the following was noted:

- a) Employers in 16 instances were from one to eight months in arrears in submitting their monthly reports
- b) Employers were withholding funds in excess of \$25.00 in 19 cases
- c) There were 8 employed patients who had neither bankbooks nor cash on hand
- d) It was noted that 4 employed patients had cash on hand but did not have bankbooks
- e) In 53 instances, employers were temporarily withholding funds and deposits were not being made currently

It was further noted that 17 of those paroled patients who appeared in this category at the time of the previous audit were discharged and their respective bankbooks were released to them by the Superintendent. However, on examining their employers' final reports, 9 appeared to have had cash on hand for which no record of disposition was noted.

Because of the foregoing it is suggested that all employers submit their reports monthly on a current basis, that deposits be made currently, and that the employers' final report should show the disposition of all cash.

GRAFTON STATE HOSPITAL

REPORT NO. 55-95

Return of \$1,425.30 Cash Advance from 1954 Appropriation Treated as an Expenditure by the Comptroller's Bureau: In connection with reconciling the 1954 maintenance appropriation with the Comptroller's Bureau, it was noted that the closing entries of June 30, 1954 had increased the expenditures for the 1954 fiscal year in the amount of \$1,425.30.

The following reason was advanced in this entry:

"To bring the above accounts into agreement with the Comptroller's records as of June 30, 1954. Repayment of 1954 Advance Cash under the following accounts per agency's Receipts Voucher #69 received after Comptroller's deadline and thus must be handled as expenditure on agency's records for 1954 fiscal year.

<u>Account Number</u>	<u>Amount</u>
01	\$1,384 19
02	41 11
	<u>\$1,425 30"</u>

In this connection, it was understood that the last day for the return of advance money was set at July 8, 1954 by the Comptroller's Bureau. The institution prepared a receipts voucher and a check for the necessary amount on July 8, 1954 and mailed them to the business office of the Department of Mental Health. Because the check did not reach the office of the State Treasurer before the stipulated date, the amount was considered to be an expenditure for the 1954 fiscal year. As a result, this amount is being carried by the Comptroller's Bureau on its records as a credit to the 1955 fiscal year's income accounts and it has accordingly advised the institution to do likewise.

Because of the foregoing, this institution is being charged with expenditures totaling \$1,425.30 in excess of those actually incurred during the 1954 fiscal year and will be credited with a comparable amount as miscellaneous income during the 1955 fiscal year.

In this connection, attention is directed to the fact that \$12,599.17 was handled in a like manner by the Comptroller's Bureau when the books were closed at the end of the previous fiscal year, which matter was the subject of discussion in the previous audit report.

Coal Adjustment: It was noted that an overage adjustment of 1,162.56 tons of coal valued at \$12,147.59 was made. This adjustment was approved by the Superintendent, Steward and the Department of Mental Health. A copy of the letter of explanation for it follows:

August 24, 1954

"Subject: Coal Adjustment

From: Grafton State Hospital

To: Mr. Joseph P. Gentile, Second Assistant Commissioner
Department of Mental Health
Dear Mr. Gentile:

"Please find attached requisition No. 16989, for adjustment in the amount of 1,162.56 net tons of coal valued at \$12,147.59.

"This adjustment represents 4.29% of the coal handled, 27,074.1 net tons, since November 1950, when last adjustment was made. Our inventory of coal as of July 31, 1954, is 671.88 net tons valued at \$8,189.48.

"Your approval for this adjustment is requested.

"We fully appreciate that this is a large adjustment and that in normal operation unnecessary. However, in 1952 the scales used to weigh ash were out of order for several months. In 1953 and 1954 for nine months the silo scales were out of order. Again for periods of approximately 6 months the boilers were hand fired while repairs to coal conveyors were made.

"The present temporary chief, who had been in charge since Mr. White's retirement, has been given orders that annual inventories of coal must be made. No excuse will be accepted for failure to do this. Because of the small size of our coal pocket more frequent inventories cannot be made.

Very truly yours,

Wm. Charles Inman, M. D.
Superintendent"

Standard State Receipt Books Unaccounted For: In reconciling and accounting for such books recorded as having been sent to the institution by the Purchasing Bureau Supply Room, ten books could not be traced. These unaccounted for books were included in a shipment of thirty by the Purchasing Bureau Supply Room during July 1954. The institution treasurer's office contends that only twenty books were received at this time despite the fact that the Purchasing Bureau's packing slip indicated thirty books.

It is recommended that henceforth the person receiving such items at the institution compare the packing slip with units actually received. The Supply Room should, of course, be notified of any discrepancy immediately thereafter.

DIVISION OF INSURANCE

REPORT NO. 55-96

Shortage in Accounts: The previous audit report discussed in detail certain Shortages in the income and advance money accounts totaling \$19,897.39. In addition to this amount, this current audit disclosed an additional shortage of \$309.54 in cash received as pay roll refunds. To date these total shortages, identified by source, are as follows:

Advance Money	\$ 2,424 04
Income	17,473 35
Current Year Refunds (Pay Roll)	309 54
	<u>\$20,206 93</u>

The Commissioner of Insurance turned this matter over to the State Police at the time of the last audit. It is understood that agency has been conducting an investigation. The previous audit report stated:

"Shortage in Advance Money: This advance fund is intended to be used for only the following purposes:

1. Petty cash expenditures
2. Occasional refunds of license fees
3. Advances to employees toward travel expenses

"The major expenditures from this fund are made for items falling within the third category, and the expenditures within the first two categories are relatively small in number. It is understood that approximately \$400.00 in currency is ordinarily retained in the cashier's office for the purpose of cashing employees' travel advance checks, and the remainder of the fund that has not been advanced to employees for travel purposes is on deposit in a local bank. When checks are cashed for the currency on hand, they are subsequently deposited in the bank account and thereupon a check is drawn on that account in exchange to replenish the office cash."

"In the ordinary routine, these checks to reimburse the currency in the office were drawn payable to the Commissioner of Insurance or to the order of one of the deputy commissioners and were, of course, signed by either the Commissioner or one of his deputies. All such checks were regularly endorsed by the payee indicated, and subsequently the proceeds were ostensibly turned over to the cashier's office.

"For the period beginning with July 1, 1953 and ending on May 18, 1954, the initial date of this examination, the following summary of the currency transactions passing through this account was made:

Receipts:	
Checks drawn to the order of cash	\$3,850 00
Returns of advance money by employees	3,479 13
Total Currency Available	<u>\$7,329 13</u>
Less:	
Currency deposited in Advance Fund Bank Account	\$1,200 00
Checks supposedly cashed	3,445 12
Currency paid to employees to balance accounts, when actual expenses exceeded	26 09
Total Currency Payments	<u>4,671 21</u>
Currency that should have been on hand	\$2,657 92
Cash on Hand, May 18, 1954	361 03
Cash Shortage, May 18, 1954	<u>\$2,296 89</u>

"In connection with this matter, attention is directed to the fact that this shortage was increased to \$2,424.04 when the advance fund was again balanced on June 30, 1954.

"Shortage in Income Accounts: In this connection, approximately 400 letters and confirmation notices were mailed in an effort to determine whether income had been received by the department and not recorded. This was done because it was evident from the examination of the advance fund that it had been used as a vehicle to siphon items of income received. In this respect the income accounts were examined for the period beginning with January 1, 1949 and ending June 30, 1954, and as a result it was established that income totaling \$17,473.35 had been received during this period and was neither entered on the books of account nor had it been remitted to the State Treasurer and Receiver-General. This income included the following types:

Reimbursement for Services	\$ 8,476 35
Agents' Renewal License Fees	1,402 00
Statement Filing and Auditing Fees, and Charter and Admission Fees	7,595 00
	<u>\$17,473 35</u>

"From all evidence available, this income was apparently diverted by two methods. One was to deposit such income checks into the advance fund bank account, without making corresponding cash book entries. When the checks were cashed through the advance account to the extent heretofore indicated the pattern for the deflection of the cash becomes perfectly clear. The second routine, which was employed essentially for smaller accounts, was to substitute unrecorded income check items for income currency items when making the deposit to the income cash bank account."

Shortage in Current Year Refunds: Subsequent to the previous audit four instances were noted where money which had been received in the cashier's section during the months of June and July 1954, was not recorded as being received on the division cash book. This money totaling \$309.54 and representing pay roll overpayments was not transmitted to the State Treasurer. In these four instances signed receipts were issued to the employees refunding the cash, as was indicated by duplicate receipts which were examined.

Statement Filing and Auditing Fees: The previous audit report commented on the lack of control over the collection of these fees, as follows:

"It was noted that no control exists for Statement Filing and Auditing Fees. Such fees are generally remitted with the annual financial statements during the first four months of the calendar year. However, if that fee is not received, there appears to have been no follow-up. In this connection, it was noted that certain insurance companies have not paid these fees for several years.

"It is recommended that the entire matter of these fees be reviewed immediately, and that enough system be defined so that billings will be made for delinquent fees, and to ascertain that they are collected and properly recorded."

This matter was again reviewed in connection with the current audit, and it was noted that a card file is in the process of being prepared which should prove of benefit in this direction. A card will be prepared for each company which is required to pay such a fee and the date and amount of annual payment will be posted thereon. It should then be possible to readily determine those organizations which are delinquent.

Changes in Accounting Procedures: Since the previous examination several changes in the method of handling cash receipts have been made. Many of these changes, some of which were suggested in the audit report of the previous examination, have placed necessary safeguard on the handling of income cash.

It is, however, again recommended that the entries in the Accounts Receivable Control Account include all income transactions in accordance with instructions in the Comptroller's Accounting Manual.

Board of Appeal on Fire Insurance Rates: This Board was originally created by Chapter 493 of the Acts of 1911. Section 1 of that act which established this Board became Section 10 of Chapter 26 of the General Laws, while Section 2 of the original act which defined the duties of the Board became Section 104 of Chapter 175 of the General Laws.

Attention is directed to the fact that Chapter 614 of the Acts of 1947 repealed Section 104 of Chapter 175 of the General Laws, but no action was taken on Section 10 of Chapter 26 of the same General Laws.

The effect has therefore been to erase the duties of the Board of Appeal on Fire Insurance Rates, but to leave the Board itself still in existence.

The appointments of the two members of the Board, at the time of the legislative change, expired on October 2, 1954, but attention is now directed to the provisions of Section 8 of Chapter 30 of the General Laws which provides that:

"A public officer appointed for any term by the governor, with or without the advice and consent of the council, shall hold his office during the term for which he is appointed and until his successor in office has qualified, . . ."

It would appear that these two Board members are still public officers and will continue in office indefinitely.

BOSTON ARENA AUTHORITY

REPORT NO. 55-97

General: The Boston Arena Authority was created to provide an indoor rink, primarily for schoolboy hockey, in the cities and towns of the Metropolitan Park District. The legislation which created this Authority appropriated \$325,000.00 for such purposes of which \$280,000.00 was to be expended to acquire the Boston Arena, thus leaving the Authority with only \$45,000.00 for operating capital.

Attention is directed to the fact that all of the assets thus acquired were and still are badly run-down and that many other items of equipment needed to successfully operate a project of this type were legally removed by the prior owners before transfer of title to the Authority.

Attention is directed to the fact that the fundamental and worthwhile purposes of the Authority as provided by statute are not of the type that will earn the profits necessary to physically rehabilitate the property and to acquire equipment needed for maximum use of these facilities. The Authority has strictly observed the intent of the statute to give top priority to schoolboy hockey and consequently have not been able to accumulate funds needed for urgent renovations. Under such circumstances financial assistance should be provided.

Cash Shortage: When this audit was initiated on January 17, 1955 a cash shortage of \$150.80 in income cash was noted. In discussing this matter with the officials of the Authority it was learned that a theft had occurred during the weekend of January 8 - 9, 1955, and that \$55.00 in petty cash funds were also stolen.

Fiscal Year: It is again suggested that the Authority's records be maintained on a fiscal year basis, possibly to end on June 30. By this arrangement a complete activity cycle will be included within a twelve months period. In this connection it was learned that legislation is presently pending in accordance with the foregoing subject.

At the present time, the records are arranged on a calendar year basis.

TREASURER AND RECEIVER-GENERAL

GENERAL DEPARTMENT

REPORT NO. 55-98

Salary Withdrawals: An examination was made of salary advance request cards which had come from the several State agencies. This examination again indicated a need for a more careful processing of these withdrawal requests in order that payments

shall not be made too far in advance of properly approved pay roll schedules. Drawings should not be made more than a month in advance of the pay roll unless the employee is employed upon a temporary status and is awaiting approval by the Division of Personnel and Standardization. Even in such cases drawings should not be allowed more than two months in advance of pay roll.

In this connection it was noted that the overdrawn advances on January 19, 1955 totaled \$19,593.04 of which \$661.23 was still outstanding on February 28, 1955. The employees who had made the latter withdrawals were no longer employed by the Commonwealth, and it was noted that only one item in the amount of \$121.21 was collected March 23, 1955. It is suggested that steps be immediately taken to collect the balance.

Bank Reconciliations: It was noted that in nine of the twenty-two active bank accounts, the reconciliations made in connection with this examination indicated pending adjustments, many of which have been continued for a long period. It is suggested that they be corrected and all subsequent adjustments be cleared currently.

It is also suggested that adjustments of this nature which develop henceforth be reported immediately to a responsible employee.

Shortages and Overages: It was noted that a letter to the Chairman of the House Ways and Means Committee, dated March 28, 1955, requested an appropriation in the deficiency budget to cover \$1,982.48 which was requested to adjust shortages over several years in seven bank accounts totaling \$1,651.00 to January 19, 1955, and five tellers' shortages totaling \$331.48.

It was also noted that two banks were over in amounts totaling \$992.33 and it is understood that this amount will be refunded.

Checks Cashed and Returned: It is suggested that checks cashed by the teller and returned by banks as bad checks should not be carried on bank reconciliations as adjustments. They should be handled as charges against the teller's cash until the amounts are recovered. In this connection it was noted that one item of \$263.77 carried as an adjustment on the date of audit and was recovered and deposited March 14, 1955. Another such item totaling \$150.00 had not been made good prior to the close of the audit.

Advice of Deposits of Revenue - State Agencies: It was noted that the bank statements of certain active bank accounts as of January 19, 1955 indicated revenue deposits which did not appear on the State Treasurer's records until a later date.

It is recommended that the Comptroller's Bureau be requested to instruct the agencies to advise the State Treasurer immediately of revenue deposits in the banks, so that the State Treasurer's records may agree with deposits shown on the bank statements.

Checks Drawn in Exchange for Cash and Checks Drawn in Exchange for Checks: It was noted that the practice of issuing the Commonwealth's checks for cash or checks has steadily increased. During this audit period several hundred checks totaling more than \$80,000.00 were so issued. It is suggested that consideration be given to the discontinuation of this practice.

Cash Deposits in Reserve Bank Accounts: It was noted that the inactive revenue funds are now on deposit in more than one hundred Massachusetts banks and have been earning interest at the rate of 1% since early in 1951.

In this connection attention is directed to the fact that interest earned on deposits in commercial banks for the period from February 4, 1954 to January 19, 1955 totaled \$76,841.01. The total of such deposits on January 19, 1955 was \$10,925,000.00.

Contracts with all banks with two exceptions representing deposits of \$5,000.00 were on file in the office of the State Treasurer. It was also noted that five contracts did not bear the signature of the State Treasurer, as agent for the Commonwealth.

Certain Checks on Hand: In this connection the previous audit report stated as follows:

"The previous audit report included a comment relative to certain checks payable to a retired employee of the Metropolitan District Commission which were in the office because that employee refused to accept them. These checks include salary items from October 1, 1943 to March 31, 1946. In addition it was noted that this individual has not cashed any of his retirement checks from April 1946 to February 4, 1954, and the records indicate that a total of 127 checks have been issued to him during the period indicated. Of these checks, 103 were found on file in the vault of the State Treasurer on February 4, 1954. It was noted that 70 of the checks in the vault have already been transferred to the 'Unpaid Check Fund' but the other 33 checks are still carried in the 'Outstanding Checks' category on the Treasurer's records. Of the remaining 24 checks not cashed, 23 checks are in the 'Unpaid Check Fund' and one check is in the 'Outstanding Checks' category."

It was noted that the total amount of uncashed salary and retirement checks belonging to this retired employee totaled \$14,785.47 on January 19, 1955, and in addition a check for \$4,888.98 is being held in the office of the State Retirement Board, representing his retirement contributions, to which he is also entitled.

In connection with this matter it was noted that this retired employee applied for the retirement and salary checks June 28, 1954 at which time he signed for and received checks totaling \$6,674.19. These checks, however, were still outstanding on the date of this audit.

Checks totaling \$7,379.78 had been returned to the General Fund in accordance with Chapter 759 of the Acts of 1951, and it was understood that legislation is to be filed during the current session of the General Court to pay the amount so returned.

Included in the foregoing total owed are seven checks of \$104.50 each, payable to this employee which were still being held in the vault of the State Treasurer on the date of audit.

Other Checks on Hand - In Vault: Seven checks held for certain reasons are listed as follows:

<u>Date of Check</u>	<u>Check No.</u>	<u>Amount</u>	<u>Check Drawn For</u>
5-31-51	537428A	\$ 5 41	Salary
10- 8-51	612189A	1 00	Salary
2-27-53	14187	821 00	Signs
2-27-53	14188	387 50	Signs
3- 9-53	65142	416 66	Rent - M. D. C.
2-11-54	108267	4,356 93	Contractor - U. S.
			Int. Rev. Levy
12-31-54	867151	117 50	Pay Roll Over-
			payment in
			November 1954

In addition to the foregoing, the following checks were also in the office:

- 1) Seven Korean Bonus Checks dated between December 30, 1953 and September 29, 1954, were held awaiting correct addresses. These checks totaled \$1,200.00.
- 2) Five checks dated January 13, 1955, and totaling \$175,045.49, were being held under instructions of the Governor and Council.
- 3) Seventy checks totaling \$91.85 dated between January 22, 1952 and November 30, 1954 were being held because the address of payee was unknown.

- 4) Three checks totaling \$1,702,326.42, drawn to the order of a contractor, were being held awaiting court decision of a pending lawsuit.
- 5) Four pension checks of a former state employee, now a patient at the Northampton State Hospital, were held in sealed envelopes.
- 6) Seventy-one retirement checks, dated between July 15, 1952 and January 18, 1955 were being held awaiting settlement of estates, etc.

It is suggested that efforts be made to process these checks as soon as practicable.

Savings Bank Books Held in Vault: It was further noted that twenty savings bank books, in the name of the Metropolitan District Commission, were also being held in the vault on the date of audit. It is understood that the balances in these books, totaling \$7,143.86, are not entered on the records of any State agency. They represent amounts deposited for perpetual care of certain lots of Quabbin Park Cemetery.

It was also noted that interest had not been added on fifteen of these books since 1948. It is suggested that interest be added on these books and that the balance be entered on the financial records of the proper State agency.

Veterans' Housing - Issue of Bonds and Notes under Permanent Financing: As of June 30, 1954, 115 projects were in permanent financing, as follows:

102 Projects - Bonds Issued	\$113,566,000 00
13 Projects - Notes Issued	21,860,000 00
	<u>\$135,426,000 00</u>

The bonds involved included 9 group issues made on a serial basis and maturing over a period of forty years, as follows:

<u>Date of Issue</u>	<u>Amount</u>	<u>Rate of Interest</u>	<u>Maturities</u>
Oct. 1, 1950	\$ 10,109,000 00	1 3/4%	Oct. 1, 1951/90
Jan. 1, 1951	13,556,000 00	1 3/4%	Jan. 1, 1952/91
Apr. 1, 1951	9,251,000 00	1 7/8%	Apr. 1, 1952/91
July 1, 1951	7,789,000 00	2 1/8%	July 1, 1952/91
Oct. 1, 1951	13,264,000 00	2 %	Oct. 1, 1952/91
Jan. 1, 1952	10,357,000 00	2 1/4%	Jan. 1, 1953/92
Apr. 1, 1952	7,700,000 00	2 1/8%	Apr. 1, 1953/92
July 1, 1952	10,722,000 00	2 1/4%	July 1, 1953/92
Oct. 1, 1952	30,818,000 00	2 1/4%	Oct. 1, 1953/92
	<u>\$113,566,000 00</u>		

The notes were in nine groups, as follows:

<u>Date of Permanency</u>	<u>Amount</u>	<u>Net Rate</u>	<u>Maturity</u>
Jan. 1, 1953	\$ 8,029,000 00	.6535%	Jan. 25, 1955
Apr. 1, 1953	700,000 00	.7442%	Oct. 26, 1954
July 1, 1953	194,000 00	- *	July 26, 1955
July 1, 1953	7,340,000 00	- *	July 26, 1955
July 1, 1953	1,083,000 00	- *	July 26, 1955
July 1, 1953	839,000 00	- *	July 26, 1955
Jan. 1, 1954	692,000 00	.6534%	Jan. 25, 1955
Jan. 1, 1954	1,835,000 00	.6536%	Jan. 25, 1955
July 1, 1954	1,148,000 00	- *	Jan. 26, 1955
	<u>\$21,860,000 00</u>		

- * Because of the premium received on this type of borrowing, a profit actually accrued to the respective cities and towns.

Although these bonds and notes were issued in the names of the several local housing authorities, they are, nevertheless, guaranteed as to payments of interest and principal by the Commonwealth and are, therefore, a contingent liability of the Commonwealth.

Borrowings up to \$225,000,000.00 may be made by local housing authorities under Chapter 200 of the Acts of 1948 as amended by Chapter 550 of the Acts of 1952. As of June 30, 1954, \$109,919,000.00 of the bonds issued were still outstanding. The notes outstanding on both permanent and temporary financing totaled \$75,534,000.00 and, therefore, represented a total contingent liability of \$185,453,000.00. This amount, however, does not appear in any of the debt statements appended to this audit report.

It was learned that notes were issued instead of bonds, on certain projects in the Permanent Financing status, because bids received for the bonds which had been contemplated were in excess of the interest maximum of 2 1/2% allowable by statute.

Cash and Securities: The records of this department indicated that at the close of business on January 19, 1955, the cash balance amounted to \$32,478,472.62 and the book value of securities totaled \$430,732,072.18. These securities included \$252,810,850.08 appearing to the credit of Massachusetts in the Unemployment Compensation Fund which is in the custody of the Federal Government in Washington, D. C. Interest earnings for the quarter ended December 31, 1954 of \$1,475,408.32 was entered on the Treasurer's ledger January 25, 1955.

DETENTION CENTER

REPORT NO. 55-100

REIMBURSEMENTS BY THE CITY OF BOSTON: Under Chapter 422 of the Acts of 1952 the City of Boston is assessed 50% of the annual costs of operation of this Detention Center.

In checking the reimbursements received from that City during the current audit period, it was noted that an undercharge was made in 1953 and an overcharge was made in 1954, as follows:

1954 Overbilled	\$4,821 51
1953 Underbilled	<u>755 47</u>
	<u>\$4,066 04</u>
50% Due City of Boston	<u>\$2,033 02</u>

It is understood that this credit will be allowed when the assessment for the 1955 year is made in the next annual settlement between the Commonwealth and the various Cities and Towns.

AERONAUTICS COMMISSION

REPORT NO. 55-103

Reimbursement to Cities and Towns for Airport Construction Projects: During the current audit period funds were expended from special appropriations for construction work at various municipal airports within the Commonwealth. The Federal Government, the Commonwealth and the various municipalities concerned, participated in the program for airport construction projects in the approximate ratio of 50%, 25% and 25% respectively. Under the provisions of Chapter 525 of the Acts of 1953 two agreements were entered into by the Commonwealth in which there will be no Federal participation.

All contracts awarded under this program are approved by the Massachusetts Aeronautics Commission, since, under provisions of appropriating acts for the 1950 and subsequent fiscal years the approval of contracts by the Massachusetts Public Buildings Commission is no longer required. Progress of work is checked by engineers of the Massachusetts Aeronautics Commission.

Invoices are presented to the Massachusetts Aeronautics Commission by the municipalities for reimbursement of the Commonwealth's share of construction cost.

Checks sent by the Federal Government are payable to the Massachusetts Aeronautics Commission as agent for the municipalities concerned. The Commission deposits these checks in a separate bank account and almost immediately draws checks on this account payable to the particular city or town concerned.

Apparently the amounts awarded by the Federal Government under the program are

not controlled by the Commonwealth

The following schedule indicates the amount of Federal and State aid paid to cities and towns for airport construction from December 21, 1953 to February 10, 1955:

<u>City or Town</u>	<u>State Aid</u>	<u>Federal Aid</u>	<u>Total</u>
Worcester	\$25,237 73	\$120,048 78	\$145,286 51
Pittsfield	14,467 52	-	14,467 52
New Bedford	10,054 96	19,978 73	30,033 69
North Adams	3,100 00	-	3,100 00
Fitchburg	687 75	1,375 50	2,063 25
Nantucket	666 77	-	666 77
Norwood	156 97	-	156 97
	<u>\$54,371 70</u>	<u>\$141,403 01</u>	<u>\$195,774 71</u>

DEPARTMENT OF NATURAL RESOURCES

GENERAL DEPARTMENT

REPORT NO. 55-104

Pay Rolls - Weekly Reports and Time Records: A test check of weekly reports and time records of personnel in the field indicated many irregularities and inconsistencies, resulting in pay roll overpayments each month for a period of four months to more than 50% of the employees. It was noted that adjustments were made during the month of December 1954 for sixty-four employees who had been previously overpaid. It was further noted that twenty-six employees were issued checks in February 1955 for wages paid in excess of earnings and nine checks were held and adjusted through the pay roll refund method. It is urged that necessary steps be taken to have the weekly reports and time records revised.

DANVERS STATE HOSPITAL

REPORT NO. 55-106

Maintenance Charges: Collections on account of house, apartments and room rent during this audit period totaled \$35,639.69. The potential income for the period was established. The following indicates the trend in the decrease of income from these sources during the past five fiscal years:

<u>Year</u>	<u>Room Charges</u>	<u>Meals</u>	<u>Total</u>
1950	\$34,345 18	\$28,006 20	\$62,351 38
1951	32,850 50	19,292 40	52,142 90
1952	31,285 47	19,331 80	50,617 27
1953	29,080 21	19,598 10	48,678 31
1954	28,435 91	19,513 50	47,949 41

During the previous audit, attention was directed to the fact that a physician employed by this institution was charged for his room at the ridiculous rate of \$.30 per month. It was further noted that he occupied a room for the period from March 1, 1954 to September 25, 1954 during which time no charge for the use of this room was made nor have any efforts been made to collect the amount due the institution. It is suggested that steps be taken to collect the amount due.

Canteen Fund: During the month of October 1954 an apparent shortage of \$363.17 in the canteen inventory was noted and was reported to the Department of Mental Health and the State Police on December 20, 1954. Since that date, State Police have visited the institution in this connection. However, a report as to disposition is still pending.

MONSON STATE HOSPITAL

REPORT NO. 55-108

Materials and Supplies: The test inventory of materials and supplies taken on February 28, 1955, in connection with this audit, indicated overages totaling \$26.75 and shortages totaling \$30.60 as compared with total materials inventoried of \$29,894.57. During the audit period the total adjustments were \$11,136.65 on materials issued aggregating \$603,682.61 and included an adjustment on fuel in the amount of \$7,062.54. It was noted that all adjustments in excess of \$100.00 had been approved by the Department

of Mental Health.

SCHOOL BUILDING ASSISTANCE COMMISSION

REPORT NO. 55-116

Construction Grants: The General Court has appropriated \$13,100,000.00 to March 22, 1955 for the purpose of financial assistance for the construction of public school buildings by the various cities and towns within the Commonwealth. Appropriations were first made effective in 1950.

This Commission, in compliance with Chapter 645 of the Acts of 1948, as amended, has expended to date \$12,180,558.19 for such assistance. In addition, encumbrances as of the date of audit totaled \$812,819.30, leaving an unencumbered balance of \$106,622.51.

While this audit was in progress, it was noted that there were still twenty-two projects awaiting processing by the Commission on which the estimated payments due to the various cities and towns will approximate \$552,589.00. In addition, there will also be due \$166,277.00 to the Regional Districts for reimbursements of planning costs on three projects.

In further connection with this matter, attention is directed to the fact that although there was an unencumbered appropriation balance on the date of audit of \$106,622.51, there was a further encumbrance of more than \$71,000.00 while this audit was in progress, leaving a balance of only approximately \$35,000.00 to take care of commitments indicated which total \$718,866.00. As it will probably be necessary to pay for these items during the 1955 year, it is obvious that an additional appropriation will be needed to take care of these current obligations.

Payments for the 1956 year are estimated at \$5,000,000.00 and the 1956 budget request was in the amount of \$4,300,000.00, leaving a potential appropriation deficit of \$700,000.00 for that year alone.

It was further noted that grants by the Commonwealth in excess of \$39,100,000.00 have been approved for completed projects and were based on construction costs in excess of \$117,500,000.00.

During the period under audit payments were made on certain uncompleted projects having an estimated construction grant in excess of \$30,000,000.00 based on estimated costs of more than \$81,300,000.00. In addition, it is now estimated that further grants of more than \$23,900,000.00 will be made toward estimated costs of \$73,800,000.00 for those projects now in the process of construction.

Certification of School Construction Costs: A previous audit report called attention to certain cities and towns which had not filed necessary reports showing their final construction costs. This information is needed in order to enable the Commission to make reimbursements to these communities.

It was noted in this connection that the Commission advised the Division of Accounts in the Department of Corporations and Taxation of this situation and that agency has brought the matter to the attention of the city or town officials concerned; and, as a result, reports showing the final construction costs are now being filed more promptly.

Financing: Generally the cities and towns issue bonds to finance construction of school buildings. The grants made by the Commonwealth are paid in installments over the life of such bonds unless the project is financed to the extent of fifty per cent or less of the approved cost. In the latter case, the grant would be paid in five equal annual installments.

Reimbursements to Cities and Towns: The statute which created this Commission does not state from what source the school construction grants are paid.

However, each year when the General Court appropriated money for reimbursement to certain cities and towns for part of the cost of construction of school projects, it has stated that a sum equivalent to the expenditures under this item be transferred to the General Fund from the receipts of the income tax.

Under Section 18 of Chapter 58 of the General Laws, the proceeds from taxation on income under Chapter 62 (after making certain deductions, the principal one of which is for Education under Chapter 70 of the General Laws) are distributed to the cities and towns on the basis of their equalized valuation as stated in Chapter 559 of the Acts of 1945.

Prior to the creation of the School Building Assistance Commission, the various cities and towns would have received their respective statutory allocations without any deductions for school construction grants. It, therefore, appears that the cities and towns are now supporting, by failing to receive what would ordinarily have been potential

receipts, the School Building appropriations as appropriated by the Legislature.

BOARD OF REGISTRATION IN NURSING

REPORT NO. 55-120

Handling of Receipts: In this connection the previous audit report stated, as follows:

"Previous audit reports have noted that several persons handle the cash receipts. Recommendations have been repeatedly made that the Division of Registration together with the Comptroller's Bureau study this situation in an effort to establish responsibility. Had these recommendations not been constantly ignored, the misappropriation of funds by unknown persons would undoubtedly not have occurred.

"Because of the present system, it is impossible to fix responsibility because scarcely any internal control is available. In this connection certain fundamental precautions are necessarily important to insure proper handling of future receipts. These include:

1. One person should open the mail, record all items.
2. A separation of duties is necessary so that the same person will not process renewals, etc., from inception to completion.
3. A periodic rotation of duties would also insure more efficient accounting control.
4. Receipts should be deposited intact each day."

With regard to the foregoing, it was noted that the opening of the mail is now confined to one employee and the recording of all items is now handled exclusively by only two employees.

It is, however, again suggested that only one employee be designated to open the mail and record its contents in one control cash book before distribution for processing.

MASSACHUSETTS HOSPITAL SCHOOL

REPORT NO. 55-125

Accounts Receivable: It was noted that the balance owed by private individuals and cities and towns which were in the hands of the Attorney General at the date of audit totaled \$27,320.05. This amount represents an accumulation of a number of years. The transactions in this class of accounts during the audit period involved collections in the amount of \$1,390.00.

In addition to the foregoing, it was indicated that accounts totaling in excess of \$17,000.00 appear to be doubtful of collection either because of questionable liability between the city and town departments or next-of-kin of the patients, or because of failure or inability to pay.

It is therefore recommended that these accounts be turned over to the Attorney General so they may be collected or otherwise disposed of.

COMMISSIONER OF VETERANS' SERVICES

REPORT NO. 55-126

Reimbursement to Cities and Towns for Veterans' Benefits: On June 30, 1954, there was owing to cities and towns the amount of \$1,688,252.12 for the months of February 1954 through June 30, 1954. This latter amount was reimbursed from the 1955 fiscal year's appropriation during the months of July, August and November 1954.

Reimbursement to Cities and Towns for World War II Allowances: On June 30, 1954 there was \$10,873.05 owing to the various cities and towns for the months of February through June 30, 1954. This amount was reimbursed in July, August and November 1954 from the 1955 fiscal year funds.

Out-of State Travel: It was noted that when approval was received for out-of-state travel a separate request was not made for an advance for this purpose. As this is contrary to instructions in the Comptrollers' Accounting Manual, it is suggested that the practice be discontinued.

STATE TEACHERS COLLEGE AT FITCHBURG

REPORT NO. 55-127

Out-of-State Students Paying In-State Rate for Tuition: The previous audit report

stated as follows:

"Certain instances were noted of students whose applications indicated them to be residents of other states who were paying the fees established for residents of Massachusetts.

"Instances of a comparable nature have been commented on in previous audit reports. On these occasions the College President's attention was directed to this matter, and it was then suggested that all students applications be scrutinized for residence.

"This matter was again called to the attention of the College President and it is now understood that the status of the students concerned will be reviewed and necessary adjustments will be made in their accounts."

This matter was again reviewed and it was noted that the necessary adjustments had not been effected.

It was noted in one particular instance which is shown to illustrate the situation with regard to the hesitancy in applying the out-of-state rates to students whose residence at the time of enrollment is unquestionably out of Massachusetts. In this case the student concerned paid the out-of-state rate as a freshman. The following year, he was charged and paid the out-of-state rate for the first semester, but for the second semester he was charged only the in-state rate. In his third year in attendance he was charged the Massachusetts rate. At this point the College President was advised of the situation and it was indicated that it would be corrected.

However, this student is now a senior at the College and it was again noted that he is still being charged at the same rate as residents of Massachusetts. To date this student has been charged only \$250.00 when actually his obligation should have been \$1,000.00 - an undercharge of \$750.00.

This matter was again discussed with the College President in connection with this audit and it was understood that an additional charge of \$750.00 will be made to him. However, if that amount is not paid, he will not be permitted to graduate. This matter should certainly have been adjusted at some point in this student's career other than immediately prior to his graduation.

Fee for Lecture Found to be an Improper Charge to State Funds by the Comptroller's Bureau: On May 24, 1954 a payment was made in the amount of \$75.00, from the College's advance money to a State employee apparently in payment of a fee for a lecture delivered to the Women's Athletic Association at a banquet held in Townsend, Massachusetts. This payment was scheduled for reimbursement and forwarded to the Comptroller's Bureau, but returned on June 21, 1954 for the reason that it did not appear to be a proper charge. Subsequently, on June 30, 1954 the advance money was reimbursed from the funds of the Women's Athletic Association.

This arrangement is open to serious criticism as all parties concerned should have been aware that if the payments were improper from State funds, it was likewise irregular for payments to be made from funds related to any activity of this College. Inasmuch as this reimbursement is clearly a subterfuge, it is advised that a refund in the amount indicated be obtained.

DIVISION OF EMPLOYMENT SECURITY

REPORT NO. 55-128

General: Funds for unemployment compensation payments and for administration of the State Division of Employment Security are provided for by maximum taxes of 3% assessed against pay rolls. Funds expended in Massachusetts for these purposes are provided for or offset entirely by collections from employers within this Commonwealth. Starting January 1, 1954 collections were again based on employers' experience ratings.

Irreducibly included in these taxes is an assessment of a .3% collected by the Federal Government from employers, which, while it is not segregated for this purpose, offsets the sums provided by the Federal Government to administer unemployment compensation. Under this levy, on the basis of available statistical records, it is understood that Massachusetts employers paid approximately \$10,600,000.00 into the Federal Treasury during the 1954 fiscal year. During this period, the Commonwealth received and expended approximately \$8,621,000.00 for the administration of this division. This amount represents 81.3% of the taxes collected from Massachusetts employers.

Veterans' Readjustment Assistance Act of 1952: The Commonwealth, through the Director of Employment Security, entered into an agreement with the United States Sec-

retary of Labor to provide unemployment compensation to veterans as defined in the Veterans' Readjustment Assistance Act of 1952.

Veterans eligible under this Act may receive \$26.00 per week for no longer than 26 weeks. The Commonwealth is to be reimbursed by the Federal Government for these payments with the exception of veterans who are entitled to benefit payments under the State Unemployment law. In such instances the Commonwealth is reimbursed only for that portion of the benefits payments in excess of amounts to which they are entitled under the State Unemployment law.

Unemployment Compensation for Federal Civilian Employees: An amendment to the Social Security Act by the addition of Title XV, Public Law 767, passed by the Congress of the United States on August 18, 1954 provides for unemployment insurance protection for certain federal employees. In this connection the Director of Employment Security for this Commonwealth and the United States Secretary of Labor have entered into an agreement to provide cash compensation to those employees.

If such workers earned wages during their base period in the Federal service and in service covered under the State law, the Federal Government will pay for the additional benefits payable resulting from Federal employment. Funds to meet the costs of administration will also be allowed to the Commonwealth as part of its grant for administration of the State Employment Security program.

This law became effective as of January 1, 1955.

Contribution Rates: Chapter 397 of the Acts of 1953 incorporated several revisions into Chapter 151A of the Tercentenary Edition of the General Laws.

In this connection Section 14 (i) and 14 (j) of said Chapter 151A of the Tercentenary Edition of the General Laws follow:

"Section 14 (i). The contribution rate of each employer shall be two and seven-tenths per cent of that part of his pay roll subject to this chapter, except as follows:-

(1) If prior to or on October 1, 1953 the Unemployment Compensation Fund available for benefits becomes six per cent of total taxable wages as determined in subsection (h) (2) above, the experience rate of each employer shall be determined in accordance with Schedule A for the calendar year 1954."

Schedule A provides experience rates ranging from 1% to 2.7%.

"(2) Whenever, as of any computation date after nineteen hundred and fifty-three the unemployment compensation fund available for benefits is less than five and one half per cent of total taxable wages as determined in subsection (h) (2) above, the experience rate of each employer for the ensuing calendar year shall be two and seven-tenths per cent.

"(3) Whenever, as of any computation date after nineteen hundred and fifty-three the unemployment compensation fund available for benefits is equal to or exceeds five and one-half per cent but is less than seven per cent of total taxable wages as determined in subsection (h) (2) above, the experience rate of each employer for the ensuing calendar year shall be determined in accordance with Schedule A.

"(4) Whenever, as of any computation date after nineteen hundred and fifty-three the unemployment compensation fund available for benefits is equal to or exceeds seven per cent of total taxable wages as determined in subsection (h) (2) above, the experience rate of each employer for the ensuing calendar year shall be determined in accordance with Schedule B."

The rates in Schedule B range from 0.5% to 2.7%.

"(5) If at any time during any quarter the Unemployment Compensation Fund available for benefits is less than four and one half per cent of total taxable wages as determined in subsection (h) (2) above, the experience rate for each employer beginning with the first day of the following quarter shall be two and seven-tenths per cent.

"(j) (1) Whenever, as of any computation date after September thirtieth, nineteen hundred and fifty-two the reserve percentage of the

"solvency account is more than one fourth of one per cent but less than one half of one per cent, an amount equal to three-tenths of one per cent of the taxable wages paid by an employer during the four consecutive quarters immediately preceding the computation date and including the quarter ending on said computation date shall be charged to the employer's account, providing the account balance is positive, and credited to the solvency account.

"(2) Whenever, as of any computation date after September thirtieth, nineteen hundred and fifty-two the reserve percentage of the solvency account is one fourth of one per cent or less, an amount equal to six-tenths of one per cent of the taxable wages paid by an employer during the four consecutive quarters immediately preceding the computation date and including the quarter ending on said computation date shall be charged to the employer's account, providing the account balance is positive, and credited to the solvency account."

Inasmuch as the actual fund balances on September 30 for the years 1953 and 1954 exceeded the potential balances based on 6% of total taxable wages in Massachusetts for the respective calendar years 1952 and 1953, the experience rate of each employer for 1954 and 1955 has been determined in accordance with Schedule A, Section 14 (i) (1) of Chapter 151A as amended. The new rates range between 1.0 per cent and 2.7 per cent.

Relation of Benefit Payments to Employer Contributions: In compliance with Section 14 (b), Chapter 151A of the Tercentenary Edition of the General Laws, the four lowest contribution rates were increased by .5% with a maximum of 2.7%, effective as of January 1, 1950. Effective January 1, 1951, the rates were all set at 2.7% and were maintained until January 1, 1954. For the years 1954 and 1955, and in accordance with Chapter 397 of the Acts of 1953, the so-called "experience rates" have been in effect.

A statement of benefit payments together with employer contributions and interest for the six fiscal periods beginning with July 1, 1949 follow:

Date	Employer Contributions and Interest and Penalties Less Refunds	Interest Credited by U. S. Treasury	Total	Net Benefit Payments
7/1/49-6/30/50	\$ 49,061,832 72	\$ 3,104,843 77	\$ 52,166,676 49	\$111,683,504 18
7/1/50-6/30/51	76,353,425 29	1,418,168 01	77,771,593 30	48,599,744 22
7/1/51-6/30/52	98,145,038 95	2,751,093 52	100,896,132 47	60,494,055 75
7/1/52-6/30/53	100,116,354 92	3,811,868 95	103,928,223 87	44,757,969 37
7/1/53-6/30/54	92,532,697 06	5,493,797 46	98,026,494 52	61,135,272 14
7/1/54-4/20/55	52,203,105 73	5,889,651 14	58,092,756 87	56,713,387 61
	<u>\$468,412,454 67</u>	<u>\$22,469,422 85</u>	<u>\$490,881,877 52</u>	<u>\$383,383,933 27</u>

The effect of the changed contribution rates is of course reflected in the foregoing schedule.

Debit Memoranda: Quarterly contribution reports as submitted by the employers are examined by the Desk Audit Section of the Contribution Department, and if it is determined that additional contributions, interest or penalties are payable to the division so-called debit memoranda are issued. The amount determined to be due from each employer is then posted to the employer ledger account in the Delinquency and Collection Division.

When checks received in payment of contributions are returned by the bank as dishonored, charge vouchers are made out by the cashier's unit, and debit memoranda are correspondingly issued to the employers.

The total amount of debit memoranda is reflected in the State general ledger in the account "Contributions Receivable - Under-payments." The balance in this account on March 31, 1955 was \$1,559,569.94.

Maintenance Expenses: A comparison of certain Maintenance expenses for the five fiscal years ended June 30, 1954 follows:

	Fiscal Year 1950	Fiscal Year 1951	Fiscal Year 1952	Fiscal Year 1953	Fiscal Year 1954
Personal Services	\$6,537,013 73	\$6,199,605 04	\$6,672,648 88	\$7,170,077 28	\$7,032,323 52
Rent of Buildings	366,708 09	464,622 02	527,926 86	565,640 82	566,163 80
Rental of Office Machinery	185,944 99	194,191 80	181,212 84	189,908 08	191,967 30
Repairs - Office Furniture and Fixtures	47,433 43	13,223 85	5,953 81	8,553 36	10,492 22
Purchase of Equipment	56,584 24	81,260 80	105,796 95	79,895 71	65,142 97
	<u>\$7,193,684 48</u>	<u>\$6,952,903 51</u>	<u>\$7,493,539 34</u>	<u>\$8,014,075 25</u>	<u>\$7,866,089 81</u>

STATE HOUSING RENT CO-ORDINATOR

REPORT NO. 55-129

Function of the Rent Co-ordinator: Paragraph (b) of Section 3 of Chapter 434 of the Acts of 1953 which outlines the functions of the Rent Co-ordinator reads as follows:

"The co-ordinator may prescribe such forms to be used consistent with the provisions of this act as he deems necessary or desirable to effectuate the provisions hereof. He shall be available, in an advisory capacity, to city and town rent boards for the purpose of attaining, as nearly as practicable, uniformity in establishing rents, and rules and regulations. The co-ordinator shall co-operate with the federal government in effectuating the purposes of this act, and shall endeavor to procure and may accept from officers and agencies of the federal government such co-operation, information, records, data and equipment as will assist the local rent boards in effectuating such purposes."

Reimbursements to Cities and Towns: Section 4 of Chapter 434 of the Acts of 1953 provides for the reimbursement of 40% of the amounts expended by the cities and towns for rent control. In this connection it was noted that there has been a sum of in \$150,000.00 appropriated for this purpose for the fiscal year ending June 30, 1955 addition to \$100,000.00 appropriated the previous year. As of the date of audit, reimbursements have been made to the cities and towns totalling \$161,858.68.

STATE PRISON COLONY

REPORT NO. 55-132

Industries - Inmates' Compensation Fund: The balance in this fund as of June 30, 1954 was \$29,863.50. Payments to inmates begin when the fund reaches \$26,000.00 and are discontinued when the fund balance drops to \$13,000.00. In this connection payments of \$13,334.90 have been made during the fiscal year 1955 to the date of audit.

Industries - Profit from Operations: The total sales for the fiscal year 1954 were \$476,306.64 as compared with \$521,815.64 for 1953, a net decrease of \$45,509.00. Net sales for the past two fiscal periods have been reduced by \$92,127.25, approximately 16% of the 1952 net sales. The profit for 1954 was \$91,648.73, equivalent to 19.24% on sales. The Mattress and Tobacco Shops indicated decreases in profits for the 1954 year.

Inmates' Postage Account: The trial balance of Inmates' Account indicated that the account termed "Postage" was overdrawn, as of the date of audit, in the amount of \$2,000.32.

This account is utilized for the sale of postage cards to inmates and its functions were established as follows:

- Debit - for cost of printing books
- Debit - for cost of postage - i. e., as letters were actually transmitted in behalf of inmates
- Credit - for charges to inmates for their purchase of inmates' postage books

Under normal circumstances this account should have reflected a credit balance to indicate the value of unused postage books in the hands of inmates, which have been paid for by them.

In analyzing the cause for the overdrawn balance, it was noted that the free mail privilege of inmates was also being posted to this account. This privilege comprises the right to mail one letter per week at no charge for each inmate. This free mailing cost should, however, be charged to the institution's maintenance appropriation and for the past several years the institution had erroneously been charging the Inmates' Postage Account for free mail and not charging the maintenance appropriation account.

On May 25, 1955, an inventory of postage in the hands of inmates and an inventory of unsold postage books was taken and it was determined that the amount of \$2,193.27 was required from the Commonwealth to bring this account to its proper balance.

This amount represents items that should have been paid by the appropriation accounts had the proper charges been made to the Inmates' Postage Account. At present, free mail for inmates is being properly charged to the maintenance appropriation.

It is understood that the institution is now in the process of obtaining funds from Commonwealth sources to reimburse this account for the present overdraft.

Inmates' Numbers: In a few instances there appeared to be erroneous entries on certain inmates' cards and occurred where there was similarity of names. At present inmates' numbers are not used on transactions affecting inmates' funds. It is therefore recommended, to avoid confusion, that inmates' numbers be used as identification in transactions of receipts and disbursements from inmates' funds.

MASSACHUSETTS REFORMATORY

REPORT NO. 55-133

Inmates' Accounts: Included with the inmates bonds on hand was one belonging to a former inmate who was discharged on February 5, 1943. Several attempts have been made to locate him but with no success.

Because of the foregoing it is suggested that Section 96A of Chapter 290 of the Acts of 1945 be complied with which states:

"So much as any funds as represents monies belonging to, or deposited for the benefit of prisoners who have died or have been discharged or have escaped from any State penal or reformatory institution, which shall have remained unclaimed for more than two years, shall be paid by the warden or superintendent of such institutions to the State Treasurer to be held subject to be paid to the person establishing a lawful right thereto with interest at the rate of 3% per annum from the time when it was so paid to the State Treasurer to the time when it is paid by him to such persons."

Industries - Cloth Department: An examination of financial reports for the past five years indicated net losses in the cloth department as follows:

<u>Fiscal Year Ending in June</u>	<u>Loss</u>
1950	\$28,788 59
1951	24,499 83
1952	25,283 42
1953	53,261 34
1954	49,473 51

The operating loss for the fiscal year ending June 30, 1954 was based upon net sales of \$71,945.11. An amount in excess of \$60,000.00 was paid for salaries to instructors and an amount in excess of \$20,000.00 was paid for heat, light and power for this same period. The financial report for April 1955 indicated an inventory of machinery and equipment less depreciation of \$43,460.28 as compared with \$20,516.03 in the furniture department. It was also noted that several items manufactured in the cloth department are sold for less than cost.

Since this department has been operated at a loss for several years, it is suggested that all possibilities for converting to a more profitable type of industry be explored.

DEPARTMENT OF PUBLIC WELFARE

REPORT NO. 55-134

Old Age Assistance - State Share: For the fiscal year ending June 30, 1955 an appropriation of \$33,000,000.00 was granted for this purpose. The status of this appropriation on April 30, 1955 follows:

Old Age Assistance - State Appropriations

July 1, 1954 to April 30, 1955

Appropriations	\$33,000,000 00
Balance brought forward from previous year	2,096,034 39
	<u>\$35,096,034 39</u>
Allotments	35,096,034 39
Balance Unallotted	<u>None</u>
<u>Allotments</u>	
July 31, 1954	\$25,000,000 00
November 30, 1954	9,600,000 00
March 31, 1955	461,711 08
April 29, 1955	34,323 31
	<u>\$35,096,034 39</u>
Expenditures	33,814,580 45
Allotment Balance	<u>\$1,281,453 94</u>

Expenditures

<u>Paid To</u>	<u>Paid During Month Of</u>		<u>Amount Paid</u>	<u>Period Covered By Payment</u>
Cities Except Boston, Towns and Welfare Districts - Aid	July	1954	\$ 6,468,971 50	February, March, April 1954
Overseers of Public Welfare, Boston	July	1954	1,211,214 60	February, March 1954
Cities Except Boston, Towns and Welfare Districts - Aid	July	1954	2,230,311 71	May 1954
Overseers of Public Welfare, Boston	July	1954	587,137 84	April 1954
Cities Except Boston, Towns and Welfare Districts - Aid	July	1954	2,132,360 84	June 1954
Overseers of Public Welfare, Boston	August	1954	591,422 42	May 1954
Welfare Districts, Administration	August	1954	9,951 81	Second Quarter 1954
Cities Except Boston, Towns and Welfare Districts - Aid	August	1954	2,205,426 18	July 1954
Overseers of Public Welfare, Boston	September	1954	631,758 32	June 1954
Cities Except Boston, Towns and Welfare Districts - Aid	October	1954	2,216,711 44	August 1954
Overseers of Public Welfare, Boston	October	1954	585,768 07	July 1954
Cities Except Boston, Towns and Welfare Districts - Aid	November	1954	2,176,977 17	September 1954
Overseers of Public Welfare, Boston	November	1954	598,237 48	August 1954
Cities Except Boston, Towns and Welfare Districts - Aid	November	1954	80,174 78	October 1954
Welfare Districts, Administration	November	1954	9,263 89	Third Quarter 1954

Cities Except Boston, Towns and Welfare Districts - Aid Overseers of Public Welfare, Boston	November 1954	\$ 2,029,670 81	October 1954
	December 1954	1,234,203 52	September, October 1954
Welfare Districts, Administration	December 1954	875 57	First Quarter 1955
Cities Except Boston, Towns and Welfare Districts - Aid	December 1954	49,046 48	October 1954
Cities Except Boston, Towns and Welfare Districts - Aid	January 1955	2,360,929 50	November 1954
Welfare Districts, Administration	January 1955	205 78	Third Quarter (Adjustments)
Cities Except Boston, Towns and Welfare Districts - Aid	January 1955	44,744 34	November 1954
Cities Except Boston, Towns and Welfare Districts - Aid Overseers of Public Welfare, Boston	January 1955	2,183,422 49	December 1954
Welfare Districts, Administration	February 1955	626,307 08	November 1954
Overseers of Public Welfare, Boston	February 1955	10,497 67	Fourth Quarter 1954
Cities Except Boston, Towns and Welfare Districts - Aid	February 1955	610,000 00	December 1954
Welfare Districts, Administration	March 1955	2,292,315 12	January 1955
Overseers of Public Welfare, Boston	March 1955	516 69	Second Quarter 1955
Overseers of Public Welfare, Boston, Adjustment	April 1955	611,358 11	January 1955
	April 1955	24,799 24	October, November, December 1954
Total Expenditures		<u>\$33,814,580 45</u>	

It will be noted that the total unexpended balance in this appropriation as of April 30, 1955 was \$1,281,453.94. In this connection it will be further noted that the City of Boston as well as the other cities and towns have been paid through January, 1955.

During this period an appropriation of \$100,000.00 was granted for services rendered to recipients of Old Age Assistance at the Tewksbury State Hospital, from which there was disbursed \$66,111.68, leaving an unexpended balance of \$33,888.32 on April 30, 1955.

It further appears that by June 30, 1955 there should be a potential liability of approximately \$10,000,000.00 in this fund provided the unexpended balance of \$1,281,432.94 can be used. At present, such liabilities are not recorded in the general ledger of this department and it is therefore again suggested that the Comptroller's Bureau be requested to provide for such recording in its general ledger so that the true financial status will be shown.

In this connection it was noted that a letter dated January 31, 1951 from the Comptroller's Bureau to the Department of Public Welfare included the following paragraph:

"Old Age Assistance - State Share: The Auditor suggested that the Comptroller be requested to provide for the recording in the general ledger of audited and approved liabilities. In accordance with the provisions of Chapter 29, Section 26 of the General Laws, as amended, an expenditure in excess of an appropriation cannot impose legal liability upon the Commonwealth."

Said Section 26, as amended by Section 1 of Chapter 636 of the Acts of 1947, reads as follows:

"Section 1. Chapter 29 of the General Laws is hereby amended by striking out section 26, as most recently amended by section 13 of chapter 242 of the acts of 1945, and inserting in place thereof the following section: - Section 26. Expenses of offices and departments for compensation of officers, members and employees and for other purposes shall not exceed the appropriations made therefor by the general court or the allotments made therefor by the governor. No obligation incurred by any officer or servant of the commonwealth for any purpose in excess of the appropriation or allotment for such purpose for the office, department or institution which he represents, shall impose any liability upon the commonwealth."

With respect to the foregoing, it certainly does not appear that said Section 26 prohibits including in the general ledger accounts for these liabilities. Obviously to omit such information results in a distorted picture of the financial condition of the Commonwealth.

Aid to Dependent Children - State Share: For the fiscal year ending June 30, 1955 an appropriation of \$5,800,000.00 was granted. A statement showing the status of this appropriation on April 30, 1955 follows:

Aid to Dependent Children - State Share

July 1, 1954 to April 30, 1955

Appropriation	\$5,800,000 00
Balance Forward	24,460 26
	<u>\$5,824,460 26</u>
Allotment	\$5,824,460 26
Expenditures	5,819,551 29
Unexpended Allotment Balance	<u>\$4,908 97</u>

Expenditures

<u>Paid To</u>	<u>Paid During Month Of</u>	<u>Amount Paid</u>	<u>Period Covered By Payment</u>
Cities Except Boston, Towns and Welfare Districts - Aid	July 1954	\$1,826,310 93	July, August, September, November, December 1953
Overseers of Public Welfare, Boston	July 1954	1,580,866 58	(July, August, September, October, November, December 1953) (January, February, March 1954)
Cities Except Boston, Towns and Welfare Districts - Aid	July 1954	1,279,733 72	January, February, March, April 1954
Cities Except Boston, Towns and Districts - Aid	July 1954	325,082 96	May 1954
Cities Except Boston, Towns and Districts - Aid	July 1954	331,562 48	June 1954
Welfare Districts, Administration	August 1954	2,665 79	Second Quarter, 1954
Overseers of Public Welfare, Boston	October 1954	467,692 19	April, May, June 1954 Estimate
Welfare Districts, Administration	November 1954	2,844 91	Third Quarter, 1954
Welfare Districts, Administration	December 1954	45 97	First Quarter, 1955 Advance
Welfare Districts, Administration	January 1955	14 81	Third Quarter, 1954 Adjustment

Welfare Districts, Adminis- tration	February	1955	\$	2,642 34	Fourth Quarter, 1954
Welfare Districts, Adminis- tration	March	1955		124 27	Second Quarter, 1955 Estimate
				<u>\$5,819,586 95</u>	
Less:					
Refunds				35 66	
Total Expenditures				<u>\$5,819,551 29</u>	

It was noted that the total unexpended balance in this appropriation on April 30, 1955 was \$4,908.97. On April 30, 1955 the City of Boston and the other cities and towns in the Commonwealth had been paid through June 1954. It would appear that by June 30, 1955 there will be a potential liability in this account of approximately \$5,200,000.00. As stated earlier in this report, such liabilities are not presently being recorded in the Department general ledger and it is again suggested that the Comptroller's Bureau be requested to provide for setting them up on the accounts.

Assistance for Totally Disabled Persons: This assistance was authorized by Chapter 118D of the General Laws as inserted by Chapter 741 of the Acts of 1951, effective November 1, 1951 and provides for local, State and Federal participation.

Federal participation is available under Title XIV - Aid to Permanently and Totally Disabled as added by the Social Security Act Amendment of 1950.

The Massachusetts State Plan for Aid to Persons Permanently and Totally Disabled was submitted on December 28, 1951 to the Federal Security Agency, Boston, Massachusetts and written approval was received from the Social Security Administration in Washington.

For the fiscal year ending June 30, 1955 an appropriation of \$4,750,000.00 was granted. A statement showing the status of this appropriation to April 30, 1955 follows:

State Share

Total and Permanent Disability Assistance

July 1, 1954 to April 30, 1955

Appropriations	\$4,750,000 00
Balance Forward	<u>133,719 18</u>
	\$4,883,719 18
Less:	
Expenditures	<u>4,223,489 43</u>
Balance, April 30, 1955	<u>\$660,229 75</u>

Expenditures

<u>Paid To</u>	<u>Paid During Month Of</u>	<u>Amount Paid</u>	<u>Period Covered By Payment</u>
Cities Except Boston, Towns and Welfare Districts - Aid	July	1954 \$ 800,072 79	January, February, March, April 1954
Overseers of Public Welfare, Boston - Aid	July	1954 495,000 00	January, February, March, April 1954
Overseers of Public Welfare, Boston - Adjustment	July	1954 15,134 58	May, June 1953
Cities Except Boston, Towns and Welfare Districts - Aid	July	1954 217,782 76	May 1954
Cities Except Boston, Towns and Welfare Districts - Aid	August	1954 222,700 94	June 1954
Overseers of Public Welfare, Boston - Administration	August	1954 13,000 00	Second Quarter 1954
Cities Except Boston, Towns and Welfare Districts - Administration	August	1954 30,462 28	Second Quarter 1954

Welfare Districts - Administration	August	1954	\$ 1,397 29	Second Quarter 1954
Cities Except Boston, Towns and Welfare Districts - Aid	August	1954	205,089 37	July 1954
Overseers of Public Welfare, Boston - Aid	September	1954	260,000 00	May, June 1954
Welfare Districts - Administration	October	1954	2,885 42	Second Quarter 1954
Cities Except Boston, Towns and Welfare Districts - Aid	October	1954	225,136 71	August 1954
Cities Except Boston, Towns and Welfare Districts - Aid	October	1954	235,511 47	September 1954
Overseers of Public Welfare, Boston - Aid	October	1954	128,000 00	August 1954
Welfare Districts - Aid	November	1954	5,781 42	October 1954
Cities Except Boston, Towns and Welfare Districts - Administration	November	1954	33,914 18	Third Quarter 1954
Overseers of Public Welfare, Boston - Administration	November	1954	12,000 00	Third Quarter 1954
Welfare Districts - Administration	November	1954	1,231 34	Third Quarter 1954
Cities Except Boston, Towns and Welfare Districts - Aid	November	1954	210,845 97	October 1954
Overseers of Public Welfare, Boston - Aid	December	1954	260,000 00	September, October 1954
Welfare Districts - Administration	December	1954	76 63	First Quarter 1955 - Advance
Overseers of Public Welfare, Boston - Administration	January	1955	1,999 89	Fourth Quarter 1954
Cities Except Boston, Towns and Welfare Districts - Aid	January	1955	239,890 83	November 1954
Welfare Districts - Administration	January	1955	29 31	Third Quarter 1954
Cities Except Boston, Towns and Welfare Districts - Aid	February	1955	238,604 95	December 1954
Overseers of Public Welfare, Boston - Aid	February	1955	50,374 85	July 1954
Overseers of Public Welfare, Boston - Administration	February	1955	12,000 00	Fourth Quarter 1954
Cities Except Boston, Towns and Welfare Districts - Administration	February	1955	36,582 97	Fourth Quarter 1954
Welfare Districts - Adminis.	February	1955	1,214 29	Nov., Dec. 1954
Overseers of Public Welfare, Boston - Aid	February	1955	263,000 00	November, December 1954
Welfare Districts - Administration	March	1955	186 87	Second Quarter 1955 - Estimate
Overseers of Public Welfare, Boston Adjustments for Administration	April	1955	3,579 46	First Quarter 1952
Overseers of Public Welfare, Boston Adjustments for Administration	April	1955	2 86	First Quarter 1952
			<u>\$4,223,489 43</u>	

It would appear that by June 30, 1955, there will be a potential liability of approximately \$1,100,000.00. As stated earlier in this report, such liabilities are not presently being recorded in the Department's general ledger and it is again suggested that the Comptroller's Bureau be requested to furnish assistance in this direction.

Old Age Assistance, Aid to Dependent Children and Assistance for Totally Disabled Persons - State Share - Payments to Cities and Towns: During the fiscal year ended June 30, 1954, disbursements were made to the cities and towns as reimbursements for the State's Share of such payments made by local welfare agencies as follows:

Old Age Assistance	\$32,943,290 92 Schedule XVI
Aid to Dependent Children	5,987,745 04 Schedule XVII
Assistance for Totally Disabled Persons	3,759,230 36 Schedule XVIII

The schedules which are referred to are appended to this report and show the payments made during the fiscal year ended June 30, 1954 together with the periods of time which they respectively include.

Division of Child Guardianship - Funds of Wards - Whereabouts Unknown: Chapter 618 of the Acts of 1941 provides that unclaimed funds of state wards seven years after becoming of age and who cannot be located should be transferred to the State Treasurer annually by November 30. On date of audit there were 38 accounts totaling \$1,162.52 belonging to former wards who became of age over seven years ago and who cannot be located. There were also 90 accounts totaling \$2,960.56 belonging to former wards who cannot be located. It is again suggested that if after diligent search the former wards concerned cannot be located that the matter be referred to the Attorney General as to what disposition may be made of these funds.

Division of Public Assistance - Accounts with Municipalities Account of Support of Patients at the Tewksbury State Hospital: It was noted that these accounts were transferred from the Department of Public Welfare to the Tewksbury State Hospital about January 11, 1955. However, on the date of this audit the Active Control Accounts Receivable Account and the Suspense Control Accounts Receivable Account in the general ledger were still open, the active account showing a balance of \$38,749.09, which were the balances at January 11, 1955 the time the records were transferred to the Tewksbury State Hospital. It is suggested that the Comptroller's Bureau be requested to provide the necessary entries to close out these accounts in the general ledger.

Rentals: An analysis of the annual property rentals listed as being paid by this Department, include the following:

600 Washington Street, Boston	\$70,000 00
107 Front Street, Worcester	7,000 00
232 Main Street, Brockton	5,000 00
46 Amesbury Street, Lawrence	4,500 00
105 Williams Street, New Bedford	3,900 00
95 State Street, Springfield	6,888 00

It was also noted that individual monthly garage rentals for the storage of automobiles used by Department employees varied between \$5.00 and \$20.00.

INDUSTRIAL SCHOOL FOR BOYS

REPORT NO. 55-135

Former Employee Not Billed for House Rent: It was noted that the former head farmer at this institution, who was transferred to another state institution in June 1954 and continued to live in a house on the grounds of this institution until December 31, 1954, had not been billed for rent during this period.

When this matter was called to the attention of the institution bookkeeper it was understood that a charge was made to this individual for \$297.00 on May 23, 1955.

Variances Between Stock Ledger Accounts and Inventory: It was noted that certain items requiring refrigeration were stored, in whole or in part, in a cold storage plant because the freezers with one exception located in the institution storeroom were being renovated and repaired.

The cold storage plant was visited and it was determined that it would not be practical

to disturb the packing of these items in storage for purpose of inventory due to their frozen condition and their arrangement.

It became necessary to obtain verification of these balances by correspondence with the cold storage company. These balances together with quantities actually on hand at the institution were used in order to establish quantities for comparison in keeping with the balances as shown in the stock ledger accounts. The balances were in agreement with the following exceptions:

Bacon	51 lbs. over
Fowl	185 lbs. short
Frankforts	75 lbs. over
Butter	286 lbs. over
Lamb	13 lbs. over
Eggs	80 1/12 doz. short

The Superintendent of this institution subsequently requested the cold storage company to recheck the items in question, but that concern was unwilling to do so contending that the amounts as submitted were correct.

It was understood that the freezers at the institution will be ready for use within the next few weeks, at which time all the items now in storage will be replaced.

These variances were discussed with the institution storekeeper who stated that on items such as eggs, for example, the difference was probably due to the fact that the one freezer which is in working order is used jointly by the kitchen and the storeroom due to the renovating process. He also indicated that the cook or his assistants have on occasion removed items without properly recording them on requisitions creating bookkeeping shortages. He further insisted that the figures furnished by the cold storage plant were not accurate, because they did not agree with his memoranda of such items.

It is accordingly recommended that a careful check be made in regard to this matter when the items are returned from cold storage at which time a new inventory should be taken and compared with the stock ledger balances. Any necessary adjustments should then be made.

DEPARTMENT OF PUBLIC SAFETY

REPORT NO. 55-138

Boxing Fund Income: The prior audit report commented that after a televised boxing match which was held on April 24, 1953, the Commonwealth did not receive its usual 5% tax on the receipts from such television rights. In this connection Section 40 of Chapter 147 of the General Laws states in part as follows:

"Every licensee holding or conducting any such boxing or sparring match or exhibition, shall within seventy-two hours after its conclusion, pay to the State Treasurer a sum equal to five per cent of the total gross receipts from the sale of tickets or from admission fees or from television or broadcasting rights;"

The licensee in this instance indicated that proceeds from television rights were not payable to him under the pre-fight terms, but to an out-of-state organization.

On November 16, 1953 the matter was referred to the Attorney General, and, to date it has not been disposed of.

Division of Subversive Activities: Chapter 650 of the Acts of 1954 created a new division in the Department of Public Safety known as the Division of Subversive Activities, whose duties are set forth as follows:

"To receive reports of subversive activities within the Commonwealth, to investigate such reports, to maintain records, to co-operate with the law enforcement agencies of the Commonwealth, and to report annually and from time to time as it may deem necessary to the Commissioner and to the Governor."

Commissions on Vending Machines: It was learned that no income was received from cigarette and candy vending machines which are located in the administration building of this Department. It was explained that these machines primarily serve as a convenience for employees and the volume of business is relatively small.

Commissions are, however, received from concerns operating soft drink vending machines in this building and at other locations under control of the Department, but there

appears to be no formal agreement with respect to these. It is, therefore, suggested that the Department maintain a record of the names of these operators, together with the locations of all vending machines. A written agreement with all operators should also be available.

REFORMATORY FOR WOMEN

REPORT NO. 55-139

Laundry Service to Employees: Previous audit reports have commented on the practice of doing laundry for employees at the rate of \$.44 per dozen pieces, which is substantially lower than the rates charged by commercial laundries in the area. It was suggested that these rates be adjusted so that they would compare more favorably with commercial rates. As nothing has been done to adjust this rate and the practice still continues, the suggestion is accordingly repeated.

Garage Rent: There are spaces for 19 vehicles in this institution's garage facilities. In this connection it was noted that at the staff home, there are seven garages, and the employees occupying them are charged a regular monthly fee. At the carpenter's building, there are spaces for 7 cars as well as 5 spaces underneath that building. In most instances, these spaces accommodate State cars, trucks and other State equipment. However, certain employees garage their privately owned cars here on more or less of a permanent basis, yet, no rental fee is charged.

It is suggested that this entire garaging situation be reviewed and all employees using garage space for private cars on a permanent basis be charged a reasonable monthly fee. However, for those employees who are permitted free garaging space, proper authorization should be obtained.

Time Records not Available: It was also noted that a number of time cards were not available for auditing purposes for the 1954 Fiscal Year, because they had either been lost or misplaced. These included the following positions:

1. Deputy Superintendent
2. Assistant Deputy
3. Assistant Deputy
4. Assistant Deputy
5. Transportation Officer
6. Temporary Assistant Deputy

It is recommended that all time records be made available in the institution Treasurer's office.

Industry Losses: It was noted that the Knitting and Poultry Industries showed operating losses of \$8,051.14 and \$4,153.73 respectively for the 1954 fiscal year, while during this same period the Flag and Sewing Industries indicated operating profits of \$10,674.55 and \$22,271.42 respectively.

The total net profit for all four industries was \$20,741.10, an increase of 1.09% over 1953. The net profit from all industries was \$18,693.99.

The records further indicate that the average number of inmates at this institution during the 1954 year was 206, of which, only 34 or 16.5% were employed by the industries. It appears that had additional inmates been employed, production would have accordingly increased so that the book costs would have been correspondingly reduced, since overhead expenses remain fairly constant.

Goods Sold at Less Than Cost: In comparing the cost of articles manufactured during the audit period, with their respective selling prices, it was noted that the following were sold at prices below the book cost of manufacture:

<u>Hem</u>	<u>Unit Cost Price</u>	<u>Unit Selling Price</u>
<u>Flags</u>		
U. S. Wool Flags 5 x 8	\$13.765 Ea.	\$11.93 Ea.
U. S. Wool Flags 6 x 9	18.981 Ea.	16.50 Ea.
U. S. Wool Flags 3 x 5	6.397 Ea.	5.34 Ea.
U. S. Wool Flags 6 x 10	19.158 Ea.	18.25 Ea.

Knitting

Mèn's Hose #140	\$6 40 Dz.	\$3 50 Dz.
Men's Hose #102	3 75 Dz.	3 50 Dz.
Men's Hose #339	4 40 Dz.	3 50 Dz.
Men's Hose #150	3 74 Dz.	3 50 Dz.
Women's Hose #200	8 56 Dz.	4 75 Dz.

Sewing

Bleached Sheets 72 x 108	\$30 64 Dz.	\$27 11 Dz.
Bleached Sheets 63 x 108	26 94 Dz.	24 00 Dz.
Bleached Sheets 54 x 81	17 32 Dz.	16 25 Dz.
Bleached Sheets 72 x 99	28 04 Dz.	25 06 Dz.
Bleached Sheets 63 x 99	24 58 Dz.	22 20 Dz.
Bleached Sheets 63 x 99	22 38 Dz.	20 40 Dz.
Bleached Sheets 81 x 99	31 32 Dz.	27 91 Dz.
Unbleached Sheets 63 x 90	20 47 Dz.	17 77 Dz.
Pillow Cases 42 x 38 1/2	6 30 Dz.	6 15 Dz.
Pillow Cases 45 x 36	9 00 Dz.	8 49 Dz.
Spreads 63 x 108	32 78 Dz.	31 55 Dz.
Shower Curtain 45 x 72	20 33 Dz.	20 00 Dz.

Poultry

Eggs - Pullets	\$.8985 Dz.	\$.30 Dz.
Eggs - Regular	.8985 Dz.	.30 Dz.
Eggs - Regular	.8985 Dz.	.35 Dz.
Chicken	1.199 Lb.	.32 Lb.

STATE BOARD OF RETIREMENT

REPORT NO. 55-142

General: For the past five years the audit reports of this Board have stated that the entered records of the Board have been so far behind the actual transactions on the respective audit dates that it had been impossible to make the annual examinations required by statute. The current examination, initiated on May 19, 1955, for the 1954 year, again indicated that this Board had not yet brought its records to a current basis. On the date of audit the following situations existed with reference to the records:

- a) All 1953 accounts had been posted to the individual accounts cards, but all card groups had not been balanced to the controls.
- b) Trial balances of subsidiary control ledgers, December 31, 1954 - not completed.
- c) Trial balances of individual accounts ledgers, December 31, 1954 - not completed. Postings started on only one State Department and six State Schools, Sanatoria and Penal Institutions. Postings completed on only five Sanatoria and Penal Institutions. Postings for 1954 had not been started on 24 State Departments, 10 State Schools, 10 Teachers Colleges, 15 State Hospitals and 5 Miscellaneous groups.
- d) Amortization on Securities held on December 31, 1954 had not been figured for the 1954 year.

Because of the foregoing conditions, it was again deemed impossible to complete the verifications of the financial transactions for the calendar year 1954; to balance the individual accounts ledgers to their respective subsidiary ledger controls and to the general ledger control; and to verify the balances of the members of the State Retirement System as of December 31, 1954.

Because the general ledger had not been entirely posted, a trial balance could not be completed.

Certain statements indicating changes in the various funds, etc., for the 1954 year and their status on December 31, 1954 could not be prepared because of the absence of the necessary data.

Position Schedule Bond: It was noted that a new position schedule bond covering eleven employees of this Board was put into effect on September 1, 1954.

Annual Statements of Individual Account Balances: Previous audit reports have called attention to the fact that notices of balances credited to members had not been sent out since the notice including transactions to December 31, 1950.

It is now understood that statements indicating balances through December 31, 1953 will be mailed during the summer of 1955.

Former Members' Accounts: Included with the total of members' deposits is a group of accounts termed "Former Members", which consists of deposits of those members no longer employed by the Commonwealth. Many of these accounts have small balances. A great number of them are more than 14 years old and have shown no activity during that period.

Attempts have been made in the past to arrange for these members to apply for refunds, but, for various reasons, either these requests were disregarded or mail was returned by the Post Office marked "moved", "unknown", etc.

Possibly the so-called "Abandoned Property Act", Section 5 of Chapter 801 of the Acts of 1950, might be applied in these cases where monies have been held for more than the required 14 years.

It is recommended that steps be initiated by this Board to transfer these old unclaimed accounts in accordance with the provisions of the aforementioned statute.

Returned Refund Checks on Hand: Refund checks mailed to members and returned by the Post Office because of inability to deliver have accumulated in the Board's vault during the past several years, and when this audit was initiated approximately 238 such checks were on hand bearing dates from January, 1948 to June, 1954.

Of these, 210 were found to have been cleared from the State Treasurer's lists of outstanding checks and transferred to the Unpaid Check Fund, after the respective banks concerned were notified to "Stop Payment".

It was found that one duplicate check had been issued by the Treasurer's office on February 16, 1953 while the original check was still in the files of this Board.

The remaining 27 checks still appeared on the State Treasurer's lists of outstanding checks as of June 23, 1955.

All of the above checks were turned over to the State Treasurer's office on June 23, 1955 and were canceled. It is understood that the State Treasurer's Department will notify the respective banks to stop payment on them and will transfer the proceeds to the Unpaid Check Fund.

In order to keep the records current, it is recommended that this Board take the necessary steps to safeguard all checks returned to them in the future by comparing returned items more frequently with the Treasurer and Receiver-General. It is also suggested that the directions in the Comptroller's Manual with respect to checks outstanding for a period in excess of one year be complied with.

HURRICANE RELIEF BOARD

REPORT NO. 55-143

State Financing of Hurricane Relief Funds: To provide for the relief of the areas damaged by the hurricanes of August 31, 1954 and September 11, 1954, the sum of \$12,000,000.00 was made available by Section 1 of Chapter 689, Acts of 1954, as amended by Section 1 of Chapter 46, Acts of 1955. To finance the expenditures necessary to carry out the provisions of this act, Section 3 of Chapter 689, Acts of 1954, as amended by Chapter 690, Acts of 1954, authorizes the State Treasurer, at the request of the Governor and Council to issue and sell bonds of the Commonwealth not to exceed the aggregate amount of \$12,000,000.00. These bonds when issued are to designate on the face, "Hurricane Relief Loan, Act of 1954". As of the date of audit, May 23, 1955, the State Treasurer's records indicate that no such bonds have been issued. The hurricane expenditures paid from state funds which totaled \$4,033,857.47 to May 23, 1955 were provided through temporary advances from other state cash funds in the custody of the State Treasurer and will be repaid from the proceeds from the sale of bonds which will be issued when the full amount of the cost of the hurricane damages can be reasonably ascertained.

Federal Grants: Under the terms of an agreement between the United States Government and the Commonwealth dated September 27, 1954, and supplemented by a later agreement dated October 7, 1954, covering terms of Federal assistance and expenditure of Federal Funds, the original allocation of \$1,500,000.00 authorized by the President as of September 3, 1954 was increased by him to \$2,500,000.00 for the reimbursement of damage claims resulting from the hurricanes of August 31, 1954 and September 11, 1954. It was also agreed that the Hurricane Relief Board would act as the authorized

representative of this Commonwealth for the approval and payment of reimbursement claims from the Federal Grants awarded by the Federal Civil Defense Administration, through its Regional Administrator. As of the date of audit, May 23, 1955, expenditures paid from Federal Grants for these purposes amounted to \$2,260,906.03.

Reimbursements to Cities and Towns: Vendors Invoices - Inadequate Data on Equipment Rentals: An examination of the warrants, invoices and pay rolls submitted by the various cities and towns to support their claims for reimbursement of hurricane damages indicated that a number of such vendors' invoices for equipment rentals lacked adequate information, particularly in the following respects:

1. Daily number of hours for rented equipment.
2. Information as to whether the rental rates included operator.
3. Registration number of truck which could be used to verify tonnage capacity on truck which is the basis of the hourly rental rate.
4. Daily number of hours for employees of contractor.

It is urged that all vendors' invoices henceforth submitted to this Board include complete details as to work performed, etc.

MOUNT GREYLOCK TRAMWAY AUTHORITY

REPORT NO. 55-144

Bond Issue: As of May 26, 1955 the Authority has not authorized the issuance of bonds for the construction of the tramway. The bond issue has been held up until certain legislative changes are approved in the original Statute creating the Authority.

Savings Bank Deposit: It was noted that the Treasurer has deposited \$7,500.00 of the funds advanced by the Commonwealth in a savings bank. However, accrued interest in the amount of \$131.52 on this deposit was not recorded.

RUTLAND STATE SANATORIUM

REPORT NO. 55-146

Accounts Receivable - Board of Patients: On the date of audit the total accounts receivable for board and treatment of patients totaled \$111,980.74, of which \$11,069.00 had been referred to the Attorney General's office for collection, leaving \$100,911.74 in the so-called active accounts. Attention is directed to the fact that this has increased substantially during the past few years because of a decline in collections.

In this connection the outstanding balance of the Tuberculosis Hospital District of Chelsea, Revere and Winthrop was \$67,459.07 on date of audit.

On several occasions efforts have been made to bring this account to a current basis, but to date they have been unsuccessful. It is suggested that the advice of the Attorney General be obtained if this account is not collected in the near future.

Increase in Per Capita Cost: Attention is called to the increased net weekly per capita cost per patient for the 1954 fiscal year as compared with the previous fiscal year as follows:

<u>Fiscal Year</u>	<u>Expenditures</u>	<u>Receipts</u>	<u>Excess of Expenditures Over Receipts</u>	<u>Net Weekly Per Capita Cost</u>
1953	\$ 998,670 92	\$166,215 14*	\$832,455 78	\$74 45
1954	1,011,479 91	87,631 33	923,848 58	84 20

* Includes sale of farm \$33,110 00

In this connection the receipts from the board and treatment of patients decreased from \$89,029.81 in 1953 to \$46,708.13 in 1954, which may be attributed principally to the fact that collections are not being currently made on outstanding accounts and that an increased number of new patients are determined as State cases.

DEPARTMENT OF PUBLIC UTILITIES

REPORT NO. 55-147

Commercial Motor Vehicles Division: The income cash on hand in this division on the date of audit totaled \$289.65, which included receipt of May 31st of \$205.15 and receipts of June 1st, of \$84.50. Entries for these amounts appear in the main office cash

book on June 1, 1955.

It is suggested that income recorded on the division records be reconciled with the main office totals each month.

Duplicate Copies of Receipts: The previous audit report stated:

"It is recommended also that duplicate copies of all receipts be kept on file in the main office of the Department for all returns received from the various divisions.

"It is also understood that this recommendation will be put into effect July 1, 1954."

It was noted that duplicate receipts copies of Commercial Motor Vehicles Division income received are now on file in the main office of the Department. Copies of cash sales receipts covering sales of forms by the Accounting Division are also on file in the main office.

Receipts which are transferred from Securities, Gas and Electric and Bus and Railway Divisions are now covered by exchange receipts - the division's representative signing the main office receiving sheet, while the bookkeeper signs the division receipt.

Income Checks Held: A check for \$7.50, representing a gas meter inspection fee, was held in the main office because of a variance between the check writer figure and the written figure. A corrected check was deposited June 2, 1955.

A check for \$12.65 was being held in the Gas and Electric Division office awaiting return of the order which should have been returned with the check. This check was deposited June 7, 1955.

Accounts Receivable: The department general ledger does not include a control accounts receivable account.

In this connection it was noted that the Gas and Electric Division bills two concerns for meter inspections. Three May 1955 charges totaling \$1,240.00 were unpaid on June 1, 1955, but were paid shortly thereafter.

Bad Checks: It is suggested that a memorandum record be kept of all bad checks. This record should include the following information:

- Date of check and maker's name
- Date returned by the State Treasurer
- Receipts voucher date and number
- Date made good

Rent Income: Rents are received from two leases which are in effect with the Cambridge Federal Savings and Loan Association under Department of Public Utilities petitions Nos. 4819 and 5403. These annual rentals are \$1,000.00 and \$2,600.00 respectively.

Smoke Inspection Division: This division was transferred from the Department of Public Utilities to the Department of Public Health in accordance with Chapter 672 of the Act and Resolves of 1954, effective September 8, 1954.

STATE TEACHERS COLLEGE AT FRAMINGHAM

REPORT NO. 55-148

Boarding Hall: The previous audit report noted that several students, who were residents of Massachusetts, were living at private homes because of inadequate dormitory facilities. It was also noted that a few upper class students who were non-residents, reside in College dormitories.

Despite the fact that it is the policy to give upper class students first preference in the assigning of dormitory rooms, it is again suggested that residents of Massachusetts be given such preference.

DEPARTMENT OF COMMERCE

REPORT NO. 55-149

Consultant Services: This department employed several consultants during the period, and during the eleven months ending May 31, 1955 a total of \$52,013.85 was expended or encumbered.

The previous audit report stated in this connection as follows:

"The agreements examined indicated fees had been paid at varying hourly and per diem rates. These agreements however, did not specify the number of hours or days of employment, and included only the signature of the person named as consultant.

"It is suggested that a contractual form of agreement be used, specifying the total hours or days of employment and a termination date, together with signatures of all concerned parties. Time records of the days and hours worked by the consultants should be maintained, and all approval of payments for such services should be premised on these records."

During this current audit period it was noted that the foregoing suggestion that the number of hours or days of employment be specified has been complied with. In addition, all new consultants have this information incorporated in their agreements.

It was noted that the agreements are now being signed by the commissioner as well as by the consultant concerned. However, agreements with consultants who have been engaged in that capacity for some time still have not been signed by the commissioner and it is again recommended that this be done.

It was also noted that the suggestion that accurate time records for the consultants be maintained has not been complied with. It is therefore again recommended that this be done.

The recommendation that a contractual form of agreement be used has not been complied with and it is also again suggested.

Classified Pay Rolls: The previous audit report stated:

"It was noted that records of days absent, sick leave, and vacation time are maintained, but no daily time records of those included in classified pay roll are available."

To the date of audit this suggestion had not been complied with. It is understood, however, that such records will be kept commencing July 1, 1955.

STATE HOUSING BOARD AND LOCAL HOUSING AUTHORITIES

Audit of Housing Authorities: Chapter 682 of the Acts of 1949 provides as follows:

"SECTION 1. Section 26NN of chapter 121 of the General Laws, inserted by section 3 of chapter 200 of the acts of 1948, is hereby amended by inserting after subdivision (c) the following subdivision:-

(d) A housing authority which sells bonds or notes to finance a project under authority of this section, or which has received funds from a city or town under authority of chapter three hundred and seventy-two of the acts of nineteen hundred and forty-six as amended, shall cause an audit to be made of its accounts annually at the close of a fiscal year by the department of the state auditor and a copy of the report of said audit shall be filed promptly with the board.

"SECTION 2. Section 8D of chapter 372 of the acts of 1946, inserted by section 4 of chapter 479 of the acts of 1947 is hereby repealed."

During the complete fiscal year ending June 30, 1955, the terms of the Act were fully complied with and every active local Authority, in a total of 92, was audited and a report issued.

In addition, seventeen other local Authorities were visited and were found to be inactive during the fiscal year and therefore required no audit.

One special cash audit was required during the fiscal year:

Grafton Housing Authority

General: Individual copies of audit reports for the State Housing Board and all local Housing Authorities have been submitted to His Excellency the Governor, the Lieutenant-Governor, the President of the Senate, the Speaker of the House, the State Librarian, the Chairman of the State Housing Board, and the Senators, Representatives and all interested city officials and members of local Housing Authorities.

Summary of Audits Completed: The following listed audits have been made since my last report to the legislature:

SCHEDULE OF HOUSING AUTHORITY AUDITS COMPLETED - - FISCAL YEAR 1954-1955

	From	To
State Housing Board	June 30, 1953	July 31, 1954
LOCAL HOUSING AUTHORITIES:		
Agawam	June 30, 1953	Mar. 31, 1955
Amesbury	Nov. 30, 1953	Mar. 31, 1955
Andover	Oct. 31, 1953	Feb. 28, 1955
Arlington	Dec. 31, 1953	Jan. 31, 1955
Athol	Dec. 31, 1953	Aug. 31, 1954
Attleboro	June 30, 1953	Sept. 30, 1954
Barnstable	Mar. 31, 1954	Mar. 31, 1955
Bedford	Sept. 30, 1953	Mar. 31, 1955
Belmont	Jan. 31, 1954	May 31, 1955
Beverly	Sept. 30, 1953	Nov. 30, 1954
Boston	Apr. 30, 1954	Mar. 31, 1955
Braintree	Feb. 28, 1954	May 31, 1955
Brockton	Aug. 31, 1953	Aug. 31, 1954
Brookline	Feb. 28, 1954	Feb. 28, 1955
Cambridge	June 30, 1953	June 30, 1954
Canton	Jan. 31, 1954	Feb. 28, 1955
Chelsea	July 31, 1953	July 31, 1954
Chicopee	Feb. 28, 1954	Apr. 30, 1955
Clinton	June 30, 1953	Dec. 31, 1954
Dalton	Apr. 30, 1954	Dec. 31, 1954
Dedham	Feb. 28, 1954	Mar. 31, 1955
Easthampton	May 31, 1954	Apr. 30, 1955
Everett	Aug. 31, 1954	Oct. 31, 1954
Fall River	Nov. 30, 1953	Dec. 31, 1954
Falmouth	Mar. 31, 1954	Apr. 29, 1955
Fitchburg	June 30, 1953	Jan. 31, 1955
Framingham	Oct. 31, 1953	Nov. 30, 1954
Franklin	Feb. 28, 1954	Apr. 23, 1955
Gardner	Oct. 31, 1953	July 31, 1954
Gloucester	Sept. 30, 1953	Oct. 31, 1954
Grafton	Sept. 30, 1953	June 30, 1954
Special Cash Audit		Mar. 31, 1955
Greenfield	Dec. 31, 1953	Apr. 30, 1955
Haverhill	Dec. 31, 1953	Jan. 31, 1955
Holyoke	Apr. 30, 1954	Nov. 30, 1954
Hull	Feb. 28, 1954	Jan. 31, 1955
Ipswich	Feb. 28, 1954	May 31, 1955
Lawrence	Sept. 30, 1953	Aug. 31, 1954
Leominster	Dec. 31, 1953	Feb. 28, 1955
Lowell	Feb. 28, 1954	Sept. 30, 1954
Lynn	Oct. 31, 1953	Dec. 31, 1954
Malden	Jan. 31, 1954	Dec. 31, 1954
Mansfield	Mar. 31, 1954	Feb. 28, 1955
Marblehead	Nov. 30, 1953	Apr. 30, 1955
Marlborough	Feb. 28, 1954	Apr. 30, 1955
Mattapoisett	Mar. 31, 1954	Mar. 31, 1955
Medford	Dec. 31, 1953	Mar. 31, 1955
Methuen	Nov. 30, 1953	Mar. 31, 1955
Middleborough	Sept. 30, 1953	June 30, 1954
Milford	Sept. 30, 1953	June 30, 1954
Millbury	Feb. 28, 1954	Mar. 31, 1955
Montague	Oct. 31, 1953	May 31, 1955
Nahant	Feb. 28, 1954	Feb. 28, 1955
Nantucket	Sept. 30, 1953	Feb. 28, 1955
Natick	Sept. 30, 1953	June 30, 1954
Needham	Feb. 28, 1954	May 31, 1955
New Bedford	Jan. 31, 1954	Nov. 30, 1954
Newburyport	Jan. 31, 1954	Mar. 31, 1955
North Adams	Feb. 28, 1954	Feb. 28, 1955
Northampton	Oct. 31, 1953	Apr. 30, 1955
North Andover	Feb. 28, 1954	May 31, 1955
North Attleborough	Feb. 28, 1954	Feb. 28, 1955
Northbridge	Jan. 31, 1954	Jan. 31, 1955
Norwood	Feb. 28, 1954	Apr. 30, 1955
Peabody	Oct. 31, 1953	Dec. 31, 1954
Pittsfield	Apr. 30, 1954	Mar. 31, 1955
Plymouth	Mar. 31, 1954	Apr. 30, 1955

From

To

LOCAL HOUSING AUTHORITIES

(Continued):

Quincy	July 31, 1953	June 30, 1954
Revere	Oct. 31, 1953	Nov. 30, 1954
Rockport	Feb. 28, 1954	Apr. 30, 1955
Salem	June 30, 1953	July 31, 1954
Somerville	July 31, 1953	June 30, 1954
Springfield	Sept. 30, 1953	Apr. 30, 1955
Stoneham	Oct. 31, 1953	Dec. 31, 1954
Stoughton	July 31, 1953	Nov. 30, 1954
Swampscott	Sept. 30, 1953	Oct. 31, 1954
Taunton	Oct. 31, 1953	June 30, 1953
Uxbridge	Jan. 31, 1954	Feb. 28, 1955
Walpole	Jan. 31, 1954	Feb. 28, 1955
Waltham	Jan. 31, 1954	Feb. 28, 1955
Watertown	Dec. 31, 1953	Feb. 28, 1955
Webster	Mar. 31, 1954	Mar. 31, 1955
Wellesley	Dec. 31, 1953	Feb. 28, 1955
Westborough	Feb. 28, 1954	Dec. 31, 1954
Westfield	Apr. 30, 1954	Nov. 30, 1954
West Springfield	June 30, 1953	Mar. 31, 1955
Weymouth	Mar. 31, 1954	Apr. 30, 1955
Wilmington	Jan. 31, 1954	Feb. 28, 1955
Winthrop	Dec. 31, 1953	Dec. 31, 1954
Woburn	Nov. 30, 1953	Dec. 31, 1954
Worcester	July 31, 1953	Oct. 31, 1954

The principal comments, exceptions and recommendations included in the audit reports issued were as follows:

SOMERVILLE HOUSING AUTHORITY

REPORT NO. 55-H-1

Discharge of Executive Director - General: It is noted that the Executive Director of this Authority was discharged as of September 1, 1953. In this connection it was noted that a five year contract for his services which was apparently in effect until April 1956, had been disapproved by the State Housing Board. It was further noted that he had brought suit against the Authority and there was a record of a Superior Court finding against him. He has appealed their decision to the Massachusetts Judicial Supreme Court where it is still pending.

Subsequent to the audit it was disclosed that a decision on the Appeal has been rendered. The Supreme Court overruled the Superior Court and decided the Executive Director was entitled to damages in connection with his suit against the Authority. The matter is now in the hands of the Attorney for the Authority.

At the June 10, 1954 meeting of this Authority the majority present voted:

"That the former Executive Director be given the position of Site Manager of the Urban Redevelopment Section, if and when the position becomes available at a salary not to exceed the amount set up in the budget."

It is understood that he will begin to function in this position as of August 2, 1954 at an annual salary of \$5,200.00.

Hiring of City Employee - General: It is again noted that a full-time employee of the City of Somerville was engaged as a tenant selector by the Authority without a waiver having been obtained from the State Housing Board. The statutes specify that a city employee may be employed by a Housing Authority only after such a waiver has been obtained from the State Housing Board. In this connection it was noted that such a request was submitted to the State Housing Board for approval on October 31, 1953 and also on May 25, 1954, but as of this audit date approval had not been granted.

Tenants' Accounts Receivable - General: It was noted amounts of rent due were from former and present tenants:

Project 200-1	\$2,700 25
Project 200-2	2,812 15

It was further noted that several of the accounts represented have been outstanding for more than a year.

It is suggested that the Authority make every legal effort to collect these accounts. After all reasonable attempts to collect them have been unavailing, those remaining should be charged off as uncollectible.

Visit to Projects - General: While this audit was in progress a visit was made to all projects and, as a result, the following was observed:

Project 200-1

1. Paint peeling from ceilings in hallways.
2. Doors to roof top unlocked due to safety boxes being broken—unsafe for small children.
3. Mops hanging from hallway windows.
4. Broken windows in doorways.
5. Grounds are in very poor condition.
6. Missing cap on hallway post - 34 North Street, Section A.
7. Outside benches broken.
8. Holes in hottopping.
9. Missing screens in hallway windows.
10. Halls used for storage of bicycles, carriages, shoes, overshoes, rugs, boxes, tonic bottles, etc. Storage rooms in basement of each building not used.
11. Smashed door in basement lavatory room.
12. Main doors sprung, do not fit properly.

Project 200-2

1. Outside walls and hallway walls and ceilings are all chalked up.
2. Grounds are in very poor condition.
3. Many broken cellar windows.
4. Doors to roof top unlocked due to safety boxes being broken - unsafe for small children.
5. Halls used for storage of bicycles, carriages, shoes, overshoes, rugs, boxes, tonic bottles, etc. Storage rooms in basement of each building not used.
6. Hand rails are rusting and in need of paint.
7. Broken chain link fence.
8. Missing door knobs on some doors.
9. Broken and missing glass in doorways.
10. Mops hanging outside windows.
11. Super Market cart on third floor hallway.
12. Broken tile on staircase - 10 Memorial Road, Section A.
13. Foundation wall cracked, broken and concrete missing - 10 Memorial Road.
14. Missing hall light receptical - 45 Memorial Road.
15. Holes in hottopping.

Administration Building

1. Floors not well kept.
2. Baskets not emptied.
3. Grounds around building in need of maintenance.

Chapter 372 - Linden Avenue

1. Grounds are in poor condition.
2. Clapboards are cracked and warping.
3. Buildings are in need of paint.

In connection with the foregoing it was understood that the following work will be done in the near future to correct a few of the difficulties indicated:

1. Installation of new doors.
2. Cellar windows to be repaired.
3. Hottopping to be done.
4. Installation of drains.
5. Painting of doors and railings.

Purchase of Materials, Supplies or Work: Attention is called to the fact that this Authority has not entirely respected the purchasing policies in accordance with its Management Program. In this connection the program states as follows:

- b. "All purchases and contracts involving a sum of not less than \$75.00 and not more than \$300.00 shall be made only after oral or telephone bids (confirmed in writing) have been obtained from at least three vendors or contractors.
- c. "All purchases and contracts involving a sum in excess of \$300.00 shall be made only after invitations for bids have been publicly advertised or have been mailed to not less than three qualified vendors or contractors."

It was noted however that the following items were purchased without obtaining competitive bids:

- a. Purchase of plumbing parts for Project 200-1 - \$242.97
- b. Purchase of envelopes for Projects 200-1, 200-2 and 372 - \$120.00

It was also noted that competitive bids were obtained for the purchase of paint. However no specifications were indicated, therefore bids could not be accepted, and subsequently there was purchased 287 1/2 gallons of paint during the audit period at a cost of \$1,175.90. This purchase was not approved by the State Housing Board.

It is suggested that henceforth the Management Program be more strictly adhered to.

Chapter 372: In accordance with Chapter 372 of the Acts of 1946, as amended, these units have been declared available for sale, and those tenants living in this project have been advised of this fact. It was understood that the Veterans Administration had appraised these buildings at approximately \$11,500.00 and that the Authority hoped to sell them at prices ranging between \$11,200.00 and \$11,500.00.

Accounts Payable, Development - Project 200-1: Prior to going into Permanent Financing estimated liabilities pertaining to the Development Costs in the amount of \$40,080.45 were established. As of the current audit date, approximately two years since then, there is still open a balance in this category of \$25,135.53. An analysis of the original estimates together with current balances follow:

	Balance July 1, 1952	Balance June 30, 1954
Furniture	\$ 716 40	-
Bronze Plaques	450 00	\$ 177 75
Administration Building	17,414 05	8,909 38
Architect's Fees	1,300 00	236 17
Bond Costs	4,400 00	12 23
Hot Top	7,200 00	7,200 00
Shades	100 00	100 00
Paint	500 00	500 00
Fence	4,000 00	4,000 00
Light Bulbs	200 00	200 00
Asbestos Covers	1,600 00	1,600 00
Ranges	100 00	100 00
Loam	800 00	800 00
Seed	225 00	225 00
Glass	100 00	100 00
Hose	250 00	250 00
Play Pit	500 00	500 00
Sump Pump	50 00	50 00
Roto Rooter	175 00	175 00
	<u>\$40,080 45</u>	<u>\$25,135 53</u>

It was understood that a part of the balance will be used for necessary repairs. It is suggested however that this account be adjusted and the balance applied to reduce possible future Commonwealth subsidy contributions.

Acting Clerk of the Works - Project 200-2: It was again noted that a certain employee had been continually paid \$70.00 per week as Acting Clerk of the Works until April 1, 1953, which was more than one year after the project's completion date. These charges were charged to Development Costs. From information available it was learned that this individual actually functioned as the maintenance foreman subsequent to the completion date of the project.

It is therefore suggested that an adjustment be made for such payments to him between Development and Administrative Costs.

Allowance for Installation of Electric Ranges - Project 200-2: Several previous audit reports have commented on the fact that an allowance of \$40.00 per unit had been granted by a local electrical utility company toward the installation of electric ranges. As a result an item totaling \$9,600.00 is being contested because the electrical contractor who installed the equipment alleges this amount allowed is due him rather than to the Authority.

The utility company has notified this Authority of its desires to dispose of the matter and as recently as July 16, 1954, the Authority officially requested that the amount in question be paid to it. However, the funds cannot be released as it is being arbitrated by the State Housing Board.

It is also noted that this project is still in Temporary Financing because of this pending matter.

NATICK HOUSING AUTHORITY

REPORT NO. 55-H-2

Annual Contribution: The Commonwealth may make an annual contribution of not more than 2 1/2% of the cost of each project.

This contribution for the third year under permanent financing to this project was \$4,847.17 and was computed as follows:

2 1/2% of the Project Cost	\$12,500 00
Less:	
Amount Reserved from Prior Year's	
Surplus for Subsidy Reduction	<u>7,652 83</u>
	<u>\$4,847 17</u>

This amount was paid to the First National Bank of Boston, the fiscal agent of the Authority, on or about December 15, 1953.

Payment in Lieu of Taxes: Payments made to municipalities in lieu of taxes are presently being computed on a new basis by direction of the State Housing Board. Under this arrangement the tax is now computed at \$3.00 per unit per month, whereas formerly, it was computed on the basis of 5% of the rental collections. For the 1954 fiscal year, these taxes were \$181.49 greater than if they had been computed on the former basis, as follows:

New Basis:		
1st. 6 months - 5% of collections		
(Old basis)	\$668 90	
2nd. 6 months - \$3.00 per Unit,		
per Month	<u>936 00</u>	\$1,604 90
Old Basis - 5% of Rental		
Collections		<u>1,423 41</u>
		<u>\$181 49</u>

It is obvious that for the entire fiscal year, this excess will be proportionately larger.

Because the tax expense has been increased, it follows that the surplus will accordingly be reduced, which in effect will reduce any regular transfer to the "Reduction of Annual Contribution Reserve", which of course will cause the probable contributions from the Commonwealth to be correspondingly increased.

Utility Rent: It appears that the utility rentals which are based on the number of bedrooms were not adjusted during this audit period as they had been during the previous audit period.

In this connection, a reference was noted in the "Minutes of the Authority's Meetings" pertaining to this matter as follows:

"In view of the erratic performance of check gas meters, a duplication of the difficulties encountered last year which required 16 meters to be removed and overhauled, the Authority approved prorated rebates as are found justifiable. In discussion, the Authority considered that in view of the low charge to tenants for gas and the fact that actual cost continues under the amount collected no further action should be taken to repair check meters."

This matter was discussed with the Executive Director and it was learned that the cost of these repairs would not be justifiable because of the small possible adjustments which might be determined necessary.

It is suggested that it might be considered advisable to dispose of the utility equipment to the local utility company at a fair market value. This procedure will eliminate utility rents and extra clerical costs. Authority for such an arrangement is provided under Subdivision (g) of Chapter 508 of the Acts of 1953.

GRAFTON HOUSING AUTHORITY

REPORT NO. 55-H-3

Annual Contribution: The Commonwealth may make an annual contribution of not

more than 2 1/2% of the total development costs of the project. The contribution for the fourth year under permanent financing, it is anticipated, will be \$2,900.00, computed as follows:

2 1/2% of the Total Costs	\$3,900 00
Less:	
Amount Reserved from Prior Year's	
Surplus for Subsidy Reduction	<u>1,000 00</u>
	<u>\$2,900 00</u>

This amount will be paid to the Worcester County Trust Company, Worcester, Massachusetts, the fiscal agent for this Authority on or about September 15, 1954.

Operating Reserve: The maximum amount of the operating reserve fund indicated in the Management Program and the budgets was \$4,800.00. However, the amount of \$1,036.95 of the prior year's surplus was transferred to this account after the maximum had been attained. This operating reserve account has a balance of \$5,837.35 as follows:

Balance, Previous Year	\$4,800 40
Transfer of Prior Year's Surplus	<u>1,036 95</u>
Balance June 30, 1954	<u>\$5,837 35</u>

This transfer was made at the direction of the State Housing Board despite the fact that it must have been cognizant that the maximum had been reached.

It is suggested that possibly a larger part of the prior year's operating surplus should have been transferred to the Reduction Reserve which in effect would reduce the subsidy required from the Commonwealth.

Payments in Lieu of Taxes: Payments in Lieu of Taxes are now being computed on a different basis than formerly, by direction of the State Housing Board. Under the new schedule it is computed at \$3.00 per unit per month, instead of 5% of the rental collections. For the 1954 fiscal year, the taxes under this arrangement were \$81.54 more than if they had been computed on the former basis, as follows:

Present Basis - \$3.00 Per Unit, Per Month	\$576 00
Former Basis - 5% of Rental Collections	<u>494 46</u>
Increased Payment Because of New Policy	<u>\$81 54</u>

Because the taxes have been increased, it becomes obvious that the operating surplus will accordingly be reduced, with the effect that the regular transfer to "Reduction of Annual Contribution Reserve," will be reduced, and the contributions from the Commonwealth will be correspondingly increased.

Utility Rents: In analyzing the utility rents and costs the following was noted:

Fiscal Year Ended March 31, 1954:

Cost of Providing Utilities:

Fuel Oil	\$2,281 02	
Electricity	<u>333 94</u>	\$2,614 96
Charges Made to Tenants		<u>2,130 29</u>
Loss to Authority		<u>\$484 67</u>

First Quarter Ended June 30, 1954:

Cost of Providing Utilities:

Fuel Oil	\$839 95	
Electricity	<u>74 80</u>	\$914 75
Charges Made to Tenants		<u>571 20</u>
Loss to Authority		<u>\$343 55</u>

In view of the foregoing, it is suggested that the entire matter of utility charges,

etc., be reviewed and if determined to be necessary, adjusted.

MIDDLEBOROUGH HOUSING AUTHORITY

REPORT NO. 55-H-4

Commonwealth Contribution: It was noted that the Commonwealth Contribution for the fourth fiscal year under permanent financing totaled \$2,829.30, and the operating surplus of \$4,170.70 for the year ending December 31, 1953 was applied to reduce the Commonwealth's Contribution for the subsequent fiscal year.

Records of the Authority: Attention is directed to the fact that certain records of this Authority were incomplete and were not available for examination.

These included tenants' leases, tenants' applications, verifications of tenants' income and vendors' bills.

Because of the lack of these records it was impossible to verify such items as eligibility of tenants, rental charges of tenants, proper classification of expenses, etc.

It is recommended that the method of assembling and maintaining these records be put into effect so that such items will be completely available when needed.

QUINCY HOUSING AUTHORITY

REPORT NO. 55-H-5

Temporary Construction Projects: The prior audit report noted that these units were completely demolished on July 31, 1953. The only activity during this audit period with respect to the past operation of these units is reflected by periodic receipts from the attorney to whom the remaining outstanding delinquent accounts were turned over for collection. As of June 30, 1954 the records indicated a balance due of \$1,349.33 on these accounts.

There was remitted \$6,949.64 to the City of Quincy in January 1954, which represented the surplus balance as of December 31, 1953 resulting from the liquidation of certain reserves.

Chapter 372 - Sale of Units: This project was completed in November 1948 and under the terms of Chapter 372 of the Acts of 1946, as amended, the Authority is obliged to offer such units for sale sometime between the fifth and sixth year after completion. In this connection it was noted that appraisals of the dwellings have been made by both the City of Quincy and the State Housing Board, and an appraisal has been requested from the Veterans Administration.

The Authority, however, considering it inadvisable to sell these units at this time voted to defer the sale. It is understood that this matter will be discussed further with the Quincy City Council at its next meeting.

Chapter 372 - Surplus from Operations: It was noted that surplus from operations for the fiscal year ending December 31, 1953 in the amount of \$13,509.47 was remitted to the City of Quincy in January 1954.

Chapter 200-1 - Permanent Financing: The books of the Authority, after taking into consideration the Commonwealth Contribution of \$50,749.69 and the Contribution Reduction of \$55,500.31 which was reserved from the first fiscal year's surplus, reflected a surplus of \$36,533.93 for the second fiscal year under permanent financing. This surplus was subsequently transferred to the Reduction of Annual Contribution Reserve.

This Authority received a subsidy of \$69,716.07 for the third fiscal year under permanent financing. This amount represents the maximum subsidy of 2 1/2% of the certified development cost less the surplus reservation of the prior year as noted above.

Chapter 200-1 - Reimbursement to City of Quincy: On February 11, 1954 the Authority, with the approval of the State Housing Board, returned to the City of Quincy, the sum of \$61,827.20 which it had received from the City on October 1, 1951 as payment for 50% of the utility costs of the project. At the time of the receipt of this money from the City, it was set up in a special reserve account and kept intact. As a consequence, this reimbursement which had been charged to the reserve had no adverse effect on the financial stability of the project.

Chapter 200-1 - Payment in Lieu of Taxes: During the current audit period, the Chairman of the State Housing Board directed that payments in lieu of taxes to the municipalities be based upon an amount of \$3.00 per unit per month. In this connection it was noted that the payments in lieu of taxes of this Authority under the previous method of computation had been but \$2.20 per unit per month for the fiscal year ending September 30,

1953. On the basis of the monthly increase of \$.80, the additional costs to the Authority will amount to \$3,840.00 annually and will doubtlessly be reflected in increased future subsidies from the Commonwealth.

SALEM HOUSING AUTHORITY

REPORT NO. 55-H-6

Chapter 200 - Project 200-1 - Operations: For the fiscal year ended December 31, 1953, this project was operated at a loss of \$3,489.17 before applying the Commonwealth Contribution of \$4,203.62 and the \$4,271.38 which had been reserved from the prior year's operations for the purpose of reducing the annual subsidy from the Commonwealth. The State Housing Board has instructed this Authority that the surplus of \$4,985.83 which resulted after the applications of these funds will be used to reduce the subsidy for the fiscal year ending December 31, 1954.

Chapter 200 - Project 200-2 - Operations: For the fiscal year ended September 30, 1953, this project operated at a loss of \$24,506.93 before applying the Commonwealth Contribution of \$37,725.00. The State Housing Board has instructed this Authority that the project surplus of \$13,218.07, resulting from this application of funds will be used to reduce the subsidy for the fiscal year ending September 30, 1954.

Chapter 372 - Surplus from Operations: It was noted that the surplus from operations of this project for the fiscal year ending December 31, 1953 totaling \$22,099.40 was remitted to the City of Salem in February 1954.

Chapter 372 - Subsidy: The gross subsidy from the Commonwealth is paid on a basis of 10% of the total development cost of \$447,462.96, and is paid over a 5 year period. To date the maximum possible subsidy was paid to the City of Salem in five annual 2% installments in the aggregate amount of \$44,746.30.

MILFORD HOUSING AUTHORITY

REPORT NO. 55-H-7

Annual Contribution: The Commonwealth may make an annual contribution of not more than 2 1/2% of the development costs. This contribution for the fourth year under permanent financing was \$17,340.82 and was computed as follows:

2 1/2% of Total Costs	\$18,600 00
Less:	
Amount Reserved from Prior Year Surplus for Contribution Reduction	<u>1,259 18</u>
	<u>\$17,340 82</u>

This amount indicated was paid to the National Shawmut Bank of Boston, the fiscal agent of this Authority, on or about March 1, 1954.

Payment in Lieu of Taxes: Payments made to municipalities in lieu of taxes are now being computed on a new basis by direction of the State Housing Board. Under the present arrangement the tax is computed at \$3.00 per unit per month, whereas formerly it was computed on the basis of 5% of the rental collections. For the first nine months of the 1954 fiscal year, the taxes computed on the new basis were \$480.58 greater than if they had been computed on the former arrangement as follows:

New Basis \$3.00 Per Unit Per Month (New Basis began January 1, 1954)	\$1,624 22
Old Basis 5% of Rental Collections	<u>1,143 64</u>
	<u>\$480 58</u>

For the entire twelve month period the difference should be proportionately greater. Because the tax expense has been increased, it follows that the surplus will accordingly be reduced which in effect will reduce any regular transfer to the "Reduction of Annual Contribution Reserve" which of course will cause the probable contributions from the Commonwealth to be correspondingly increased.

CAMBRIDGE HOUSING AUTHORITY

REPORT NO. 55-H-8

Chapter 372 - Permanent Construction - Sale of Homes: The previous audit report,

stated that after causing two appraisals to be made of these seven units, the Authority met with the respective tenants to discuss with them arrangements, etc., for selling them these homes, under the provisions of the options included in their leases. Inasmuch as those tenants interviewed indicated a desire to wait until the expiration of the five-year period stipulated by statute during which the Authority is required to sell these units, it was decided to withdraw them for sale at this time. This five-year period will expire in July 1955.

Project 200-2 - Account Payable: It was noted that the records show there is due to a contractor \$27,532.81. This balance has remained in an inactive category since February 1952, as the contractor contends a larger amount is due him. It is suggested that immediate steps should be taken to settle this matter so that the accounts may be cleared. There is a cash balance in the Development Fund in this amount.

Project 200-3 - Development Account: It was noted that the Development account for this project was closed during this audit period. In this connection the Development cash balance of \$6,298.32 was transferred to the Administration cash account and accounts payable in the amount of \$2,798.32 and the Contract Retention account balance of \$3,500.00 was closed.

Attention is directed to the fact that the Contract Retention account should not have been closed. This matter was brought to the attention of the proper personnel and it is understood that the necessary adjustments will be effected.

It was further noted that when the cash was transferred to the Administration Fund, it was credited to the Operating Reserve account. However, when the routine charges amounting to \$2,650.70 for the fiscal year 1954 were reversed, it resulted in no charges being made to it for the year. However, despite this fact this account showed a balance of \$2,965.47 in excess of its stated maximum, subsequent to the entry of the credit of the aforementioned \$6,298.32 from the Development account. This excess credit of \$2,965.47 was accordingly transferred to the Reserve for Contribution Reduction after this matter was brought to the attention of the Authority.

It is however suggested that the procedure of handling the closing of the Development account was incorrect. This entire situation would have been more properly handled if charges of \$2,650.70 for the fiscal year ending June 30, 1954 had been allowed to remain as originally established. In this way the reserve would have been increased to \$17,317.85 and the amount necessary to bring it to its maximum of \$18,000.00 could have been charged over the 1955 year. The budget for the year ending June 30, 1954 had included \$2,650.00 for Operating Reserve.

The residue in the Development account when it was closed should have been transferred to the Surplus account providing there were no unusual charges to the Reserve account and permitting it to reach its maximum within the prescribed five years. It is worthy of note that in this project the maximum had been almost reached in approximately two years.

Because it is necessary to bring the aforementioned \$3,500.00 back into the Contract Retention account it was suggested the Operating Reserve account be charged. This would result in this amount being included with the expenses of the project and it would be absorbed over a period of less than two years, on the premise of the \$4.00 per unit per month prescribed charge.

It is understood that adjustments consistent with the aforementioned suggestions will be applied by the Authority.

Chapter 200-4 - Operating Reserve: When the Development account was closed the unexpended funds, representing excessive estimates of \$7,126.32, were transferred to the Administration account and credited to the Operating Reserve account.

At that time there were known liabilities of \$6,500.00 which would be chargeable to the Reserve.

This amount should have been transferred to the Surplus account and used to increase the Reduction of the Commonwealth Contribution in subsequent periods. Even though the \$6,500.00 indicated had been charged directly to the Reserve, that account would still reach its prescribed maximum in less than four years without the entire credit of the \$7,126.32. This would still be one year shorter than the period prescribed during which to reach the maximum Operating Reserve.

Project 200-6 - Cash Position: It was noted that there was an unusually large cash balance in this project which was still in Temporary Financing. This balance as of June 30, 1954 was \$96,904.47 and was being increased each month.

It is suggested that the major portion of this cash be invested in United States Gov-

ernment securities, so that interest may be earned on the account.

Chapter 200-6 - Ledger Accounts: It was noted that the General Ledger accounts had not been posted currently. The Subsidiary Ledger accounts were however found to be currently posted.

It was also noted that Expense Account \$4000 had not been brought onto the General Ledger for the quarter ending June 30, 1954, nor had Development Costs account #4000 been posted for a period of six months. These ledger accounts should be currently and properly maintained.

This arrangement is contrary to normal procedure which described that such reserves should not be established until a project goes into the Permanent Financing status.

Usually the State Housing Board decides what portion of the Initial Operating Income should be credited to the Operating Reserve. Of course the amount indicated plus subsequent credits and charges to current expenses will reduce the amount of Initial Operating Income and might possibly increase the amount of bonds to be issued.

Also, the establishment of this Reserve increased the operating expenses to a point where higher income will be necessary to maintain the project on any Budget Basis. Hence, the high cost of operation with resultant higher rental averages has probably been one of the reasons for the unusually high tenants selection expenses and delayed complete occupancy.

Chapter 200-6 - Adjoining Property Risk: It was noted that a clay pit adjoining this project which is thirty feet deep appears to be a hazard for children of the project as it is not protected by a fence or any other means. It is suggested that a fence be built around this area as a protection against injury.

It is understood the State Housing Board has authorized the erection of such a fence. However, to the close of the audit, no action had yet been taken.

Chapter 200 Projects - Operations under Permanent Financing: The following shows the results of operations for the fiscal year ending within the audit period for the five State-aided projects which were in Permanent Financing:

Projects	200-1	200-2	200-3	200-4	200-5
Fiscal Year Ending	6/30/54	3/31/54	6/30/54	3/31/54	6/30/54
Deficit before Commonwealth Contribution and Reductions thereof	<u>\$19,965 24</u>	<u>\$25,828 31</u>	<u>\$17,037 42</u>	<u>\$64,103 92</u>	<u>\$15,215 82</u>
Commonwealth Contribution	<u>\$20,660 98</u>	<u>\$22,108 50</u>	<u>\$18,035 08</u>	<u>\$65,901 00</u>	<u>\$16,523 06</u>
Contribution Reduction	<u>2,114 02</u>	<u>10,191 50</u>	<u>3,364 92</u>	<u>7,724 00</u>	<u>1,276 94</u>
	<u>\$22,775 00</u>	<u>\$32,300 00</u>	<u>\$21,400 00</u>	<u>\$73,625 00</u>	<u>\$17,800 00</u>
Prior Year Surplus Adjustments	<u>144 35</u>	<u>-</u>	<u>144 35</u>	<u>-</u>	<u>115 48</u>
	<u>\$22,919 35</u>	<u>\$32,300 00</u>	<u>\$21,544 35</u>	<u>\$73,625 00</u>	<u>\$17,915 48</u>
Surplus after Com- monwealth Con- tribution and Contribution Reduction	<u>\$2,954 11</u>	<u>\$6,471 69</u>	<u>\$4,506 93</u>	<u>\$9,521 08</u>	<u>\$2,699 66</u>

The surplus of the respective projects was credited to the Reserves for Reduction of Commonwealth Contribution for the fiscal year 1955.

Payment in Lieu of Taxes - All Projects: The basis of payments in lieu of taxes to the cities was revised as of December 16, 1953 and was made retroactive to January 1, 1953. The basis was changed from 5% of the Dwelling Rent Income to \$3.00 per unit per month. The change resulted in larger payments to the cities for "Payment in Lieu of Taxes."

Because the basis had been changed after the budgets had been established and approved, the additional allowance was charged to the Operating Reserves of each project.

on authority of the State Housing Board.

Due to the fact that the payments in excess of the accruals for the year 1953 were charged to the Operating Reserves, the Operating Statements do not show the true expense for Payment in Lieu of Taxes.

The additional payments which were charged to the Reserve accounts were as follows to June 30, 1954:

Project 200-1	\$ 659 75
Project 200-2	867 03
Project 200-3	682 15
Project 200-4	2,207 35
Project 200-5	205 72
Project 200-6	1,899 09

TAUNTON HOUSING AUTHORITY

REPORT NO. 55-H-9

Commonwealth Contribution: During this audit period this Authority was notified of annual Commonwealth Contributions as follows:

Project	For the Fiscal Year Ending	Maximum Contribution	Amount of Contribution Authorized
200-1	Sept. 30, 1954	\$32,050 00	\$32,050 00
200-2	Sept. 30, 1954	13,850 00	13,850 00

Disposition of Surplus: During this audit period disposition of the operating surplus of the two projects was made with the authorization of the State Housing Board, as follows:

Project	For the Fiscal Year Ending	Amount of Surplus	Transfer to Operating Reserve
200-1	Sept. 30, 1953	\$ 865 83	\$ 865 83
200-2	Sept. 30, 1953	2,476 97	2,476 97

Payment in Lieu of Taxes: As of the audit date it was noted that payments in lieu of taxes to the City of Taunton for the year ended December 31, 1953 were as follows:

Project	Amount Authorized by the State Housing Board	Actual Pay- ments by the Authority	Balance Due City of Taunton
200-1	\$ 208 00	\$156 00	\$ 52 00
200-2	1,440 00	156 00	1,284 00

In connection with the foregoing it was noted that \$1,232.00 of the amount due from Project 200-2 was to be charged to the Operating Reserve, and accordingly its balance would have been reduced by that amount had the required payment been made.

Payments as indicated were actually made while the audit was in progress.

Temporary Construction Project - Status of Project: This project is no longer in operation and all its buildings and equipment have been sold.

During this audit period the only receipts were from the recovery of tenants' accounts receivable which had been charged off in previous audit periods. The disbursements consisted mainly of a payment of \$5,500.00 to the City of Taunton.

It is understood that this Authority will make arrangements to render a final accounting of this project to the City of Taunton in the near future.

Project 200-1 - Results of Operations: For the period October 1, 1953 to June 30, 1954 the records of this project indicated a deficit of \$2,575.22 which is approximately \$2.80 per unit per month.

This deficit occurred even though the payment in lieu of taxes, Operating Reserve, and Debt Service Reserve had not been accrued at the maximum rate.

An inspection of the records indicated that this deficit resulted mainly from high dwelling utility costs and vacancy loss which were only partially offset by low costs of

repairs, maintenance and replacements.

The problem of high utility cost of fuel and heating is one that has confronted the Authority since the project began operations. As the project ages there will be added costs for repairs, replacements, and betterments for which the project will have to provide.

Therefore, the attention of the State Housing Board and the local Authority is called to the fact that current results of operations present a serious threat to the financial stability of the project.

Project 200-1 - Utilities: In an effort to reduce what appears to be excessive costs of heating at this project, a contract was awarded to revise the present heating system and with the exception of a minor item it had been completed as of the date of audit.

The Authority is of the opinion that the revisions completed to date to the heating system have not proved to be the solution and further changes will be necessary.

As of the date of audit there still remained a balance of \$39,489.15 of the original \$49,000.00 which had originally been allotted for revision of the steam line when the project went into Permanent Financing.

GARDNER HOUSING AUTHORITY

REPORT NO. 55-H-10

Temporary Construction Projects: This project which formerly consisted of 40 units has been entirely demolished and its financial records are being prepared for a final accounting to the City of Gardner.

In this connection, it was noted that there are still open Accounts Receivable - Tenants totaling \$1,012.38 which have been outstanding for several years. These accounts are now in the hands of the attorney for the Authority. It is recommended that when the project is finally liquidated, they be transferred to the Legal Department of the City of Gardner for disposition.

Administration Funds - Projects 200-2 and 200-3: It was noted that the balances in the two Administration Funds of these projects are rather large and have remained approximately at the same level throughout the year.

It is suggested that a portion of these funds be invested so that some income may be realized.

Permanent Financing: It was noted that the Commonwealth subsidy contribution for the third year of Permanent Financing for Project 200-2 was \$12,500.00, the maximum permitted, and was paid to the Second National Bank of Boston on or about June 15, 1954.

It was also noted that the Commonwealth subsidy contribution for Project 200-3 for its second year under Permanent Financing is expected to be \$9,100.00, the maximum allowed. One fourth of this subsidy in the amount of \$2,275.00 was paid to the Second National Bank of Boston, the fiscal agent, on March 1, 1954 and the remainder of \$6,825.00 will be paid on or about September 1, 1954.

Transfer of Surplus - Projects 200-2 and 200-3: It was noted that the surpluses of the two projects in the respective amounts of \$4,670.51 and \$1,299.01 were transferred to their Operating Reserve accounts. No provision was, however, made for "Reduction of Annual Contribution Reserve".

In this connection it was noted that transfer of the Project 200-2 surplus increased in the Operating Reserve account to \$16,189.21. This balance exceeds both the maximum Operating Reserve set forth in the Management Program and the total stated in the budget by \$3,889.21. This matter was brought to the attention of the Executive Director, who stated that this was authorized by the State Housing Board because of the anticipated cost of replacing the water heaters of this project.

It is further noted that the Management Program states that:

"When the Operating Reserve account equals the maximum, no further credits shall be made to it until it has been reduced by necessary charges against it."

Obviously, because of the foregoing there is no provision for a build-up of the Operating Reserve beyond the maximum for anticipated costs. There is, however, provided the routine for the replenishment of this Reserve when actual necessary charges reduce it below its maximum.

Payment in Lieu of Taxes: Payments made to municipalities in lieu of taxes are

now being computed on a different basis by direction of the State Housing Board. Under this new arrangement the tax is computed at \$3.00 per unit per month, whereas formerly the tax was computed on the basis of 5% of the total rental collections. For the current year for Projects 200-2 and 200-3, the taxes so computed were \$239.68 and \$223.49, respectively, more than if they had been computed on the former basis, as follows:

Project 200-2:

New Basis (\$3.00 per unit per month):		
Per Books - June 30, 1954	\$738 00	
Accrual for July	<u>123 00</u>	\$861 00
Old Basis (5% of Rental Collections)		<u>621 32</u>
Increased Payment Because of New Policy		<u>\$239 68</u>

Project 200-3:

New Basis (\$3.00 per unit per month):		
Per Books - June 30, 1954	\$702 00	
Accrual for July	<u>78 00</u>	\$780 00
Old Basis (5% of Rental Collections)		<u>556 51</u>
Increased Payment Because of New Policy		<u>\$223 49</u>

The foregoing increases are for seven months and ten months respectively, so that the increases will be proportionately greater for complete years.

In view of the foregoing, it follows that the surplus will consequently be reduced, thereby reducing any regular transfer to "Reduction of Annual Contribution Reserve", which in effect will cause the contributions from the Commonwealth to be correspondingly increased.

CHELSEA HOUSING AUTHORITY

REPORT NO. 55-H-11

Appropriated Fund - Activity: As of the date of audit the balance of this account amounted to \$5,480.67, and represented the balance of the original City of Chelsea appropriation of \$37,500.00 which was made for the preparation of the site and installation of utilities for the Temporary Construction Projects.

There was no activity in this account during the audit period. It is understood that this balance is being held in the event that the income from the Temporary Construction Projects is insufficient to meet the obligations incurred during the final phase of the operation of these units by the Authority.

Temporary Construction Projects - Occupancy: As of the date of audit the Authority was still operating twenty-five of its original 108 temporary units. Liquidations took place as follows:

The sixteen units at Central Avenue were demolished to provide a site for the Chapter 200-3 project.

Forty units in the Eleanor Street area are in the process of being torn down. Four units had previously been demolished when one building in the project collapsed.

Twenty-three units at Memorial Park have been taken by eminent domain by the Commonwealth for the construction of the so-called Northeast Expressway. It is understood that the remaining nine units in this area will be demolished when the Commonwealth begins that construction.

It is further understood that the Authority intends to continue to operate the sixteen units on Springvale Avenue.

As noted in the previous audit report, the Authority had requested permission from the City of Chelsea to proceed with the demolition of certain temporary units but that no action had been taken by the City. On September 25, 1953 the Authority again requested the Mayor and the Board of Aldermen for authorization to demolish the forty-four units in the Eleanor Street area because it was impossible to fill the vacancies as they occurred and because of the hazardous conditions created by vacancies. The Authority further informed the City officials that there were thirty vacancies at that time, that vandalism was rampant and that the damage to the property was extensive.

In this connection it was noted that the Authority received a letter dated October 13, 1953 from the Building Inspection Department of the City with respect to an examination of the areas of the Eleanor Street project. In its letter this Department concurred with the conditions set forth in the letter of September 25, 1953 and notified the Authority, as prescribed by law, of the dangerous conditions from the standpoint of health and fire

hazards.

It would appear that conditions at this project were such that immediate demolition should be authorized. It was noted that on May 6, 1954 the Board of Aldermen ordered the issuance of sixty-day eviction notices to the five remaining tenants in order that the project could be demolished. During the period of waiting for authorization for the demolition, this project was looted of fixtures and plumbing and extensive damage was created by vandals. It is impossible to accurately estimate the monetary loss resulting therefrom.

In this connection it was also noted that the contract to demolish the forty remaining units at this project was awarded at a sales price of \$1.00 whereas the Authority received \$325.00 in income as the result of the tearing down of the sixteen units on Central Avenue.

Temporary Construction Projects - Surplus: The surplus from operations for the fiscal year ending December 31, 1953 totalled \$8,426.45, and was remitted to the City of Chelsea in February 1954.

Chapter 200-1 and 200-2 - Permanent Financing: The surplus from operations, after taking into consideration the maximum Commonwealth Contribution of \$64,425.00, totalled \$14,208.21 for the first fiscal year under Permanent Financing which ended on September 30, 1953. On instructions of the State Housing Board this amount was reserved for the purpose of subsidy reduction for the following fiscal year and as a consequence the Commonwealth Contribution requested for the fiscal year ending September 30, 1954 will be only \$50,216.79.

Chapter 200-1 and 200-2 - Administration Fund: As of the date of audit the balance of the Administration Fund amounted to \$86,374.23, which was in excess of the immediate cash requirements of the Authority. This matter was brought to the attention of the Executive Director, and it was suggested that a portion of this balance be invested. As a result the Executive Director contacted the State Housing Board and received authorization to invest \$30,000.00.

Chapter 200-1 and 200-2 - Project Inspection: The previous audit report commented upon certain oil pipes which were protruding 5 to 6 inches above the ground in the 200-1 area. During the visit to the project it was noted that the situation still exists. The Authority in an explanation of this matter stated as follows:

"The protruding oil fuel pipes present quite a problem and the Authority felt that their relocation as recommended could only be done at a prohibitive cost. The other two alternatives were to pave up to the top of the protrusion or to raise the protrusion two or three feet. Neither was deemed feasible since, in the case of the former, water would get into the fuel oil lines, and the latter would create even a greater hazard. Inasmuch as these tanks are imbedded in former dumping grounds, it is not unreasonable to expect that replacements will have to be made in the not too distant future and these conditions will then be rectified at that time."

With respect to the poor lighting of the storage stalls also mentioned in the previous audit report, it was observed that the same condition still exists. It was explained that the tenants still remove the light bulbs, and it appears that the Authority has not been able to cope with this matter. It would seem that some positive action on the part of the Authority could solve the problem.

During the current inspection the following unsatisfactory conditions were noted at the 200-2 area:

1. Window sills and balcony guards are rusted and in need of paint.
2. The project grounds were littered and in the need of policing.
3. Walls and doors show chalk marks and other writings.
4. The ground floor entrances needed cleaning.
5. The incinerator rooms seemed unnecessarily dirty.

From the foregoing it seems that more diligent maintenance is needed in this area. The two Federal projects operated by the Authority present a much neater appearance when contrasted with the general air of deterioration and neglect of the 200-2 State-aided project. There seems to be no reason why comparable conditions should not prevail at

the State project.

Chapter 200-1 and 200-2 - Payment in Lieu of Taxes: Upon instructions of the Chairman of the State Housing Board, the Authority was instructed to change its formula for computing the Payment in Lieu of Taxes from 5% of the net shelter rent collected to \$3.00 per unit per month. This change resulted in an increase of approximately \$1,900.00 in the operating expenses of the Authority for the calendar year 1953, which increase will naturally be reflected in larger future subsidy payments by the Commonwealth.

Chapter 200-3 - Land Takings: On July 3, 1952 and October 1, 1952 the Authority acquired by eminent domain land for the construction of this project. In this connection it was noted that title to six parcels of this land which had been in the name of a former member of the Authority now is in the name of another. It is understood that title was transferred on or about March 31, 1952.

It was further noted that the Authority had been considering the construction of a project on this site since August 1951 and that this former member had participated in decisions relative to it until approximately May 5, 1952, when his successor was appointed. This ownership of land by a member of the Authority which was to be used as a project site would appear to be contrary to the terms of Section 17 of the Contract for Financial Assistance which reads in part as follows:

"No member of the Authority shall participate in any decision relating to the project, affecting his personal interests or the interest of any corporation, partnership, or association in which he is directly or indirectly interested. No member, officer, agent, servant, or employee of the Authority or of the city or town in which the project is located, shall have any interest, direct or indirect, in any contract for property, materials, or services to be acquired by the Authority or furnished or used in connection with the project."

In further connection with the land takings, it was observed that five parcels of land in the Central Avenue area which had been owned by the City of Chelsea were sold by the City on or about May 1, 1952 to the same individual who had acquired title to the six parcels previously indicated. This sale apparently violated an agreement by the City to donate land for the site inasmuch as in Part 1 of the application for a Contract for Financial Assistance submitted by the Authority on October 25, 1951 it was stated "Part of the land for the site to be donated by the City."

The City officials should have been aware of the fact that these five parcels were part of the proposed site of the project, because in the Authority's report for the calendar year 1951, which was sent to the Mayor and the Board of Aldermen on January 30, 1952, there appeared the following statement:

"The housing situation is still such that it is difficult to envision a substantial change in the status of these temporary units during this coming year other than the demolition of sixteen units located on Central Avenue, which is the proposed site for 96-unit State-Aided Veterans' Housing Project which is to be known as Chelsea 200-3."

It is not readily apparent why the City should have sold these five parcels when it was known that they were to be part of a site for the project.

In further connection with this matter, it was noted that the Authority was not able to negotiate a settlement on the price to be paid for this land and that a land damage suit has been filed against the Authority. Any damaged items allowed will be reflected in a higher average rental needed to maintain the financial stability of the project because of the consequent increase in construction costs upon which the average rental is based. This higher average rental will necessitate the selection of tenants with higher incomes, which will of course be to the detriment of prospective applicants with lower incomes.

Chapter 200-3 - Contract for Financial Assistance: On June 1, 1954 the State Housing Board approved an increase in the Contract for Financial Assistance from \$1,448,000.00 to \$1,600,000.00 in order that the Authority might borrow additional funds to complete this project. This increase became necessary because of higher development costs than those originally estimated.

In this connection it was also noted that an increase of \$91,314.39 in the construction

contract was the result of Change Orders approved to the date of audit.

General - Suits Pending: As of the date of audit the Authority was involved in the following legal actions with respect to the projects subject to audit by this Department:

1. A suit by a former attorney for the Authority for legal services rendered. Execution has been issued in the sum of \$14,000.00 in favor of the plaintiff. There is in this case at the present time a Petition for Writ of Mandamus and Order of Notice returnable to the Supreme Court on September 22, 1954.
2. Petitions for Assessment of Damages have been filed by four former owners against the Chelsea Housing Authority for land takings for Chapter 200-3.

STATE HOUSING BOARD

REPORT NO. 55-H-12

Chapter 372 - Projects Not Certified: The previous audit report stated that there was still one project authorized by Chapter 372, which had not been certified. This project was originally contemplated for Boston on Morton Street with 108 tentative units. Although construction of this project was never instituted, the following preliminary expenses were incurred:

Administration Expenses	\$ 460 13
Architectural and Engineering	68,373 33
Acquisition of Site	90,241 63
	<u>\$159,075 09</u>

This project was officially abandoned according to a letter from the Mayor of Boston dated July 15, 1953.

No subsidy has been paid on this project and it is understood that none will be requested because in the opinion of the Attorney General no liability exists to the Commonwealth because the project was not completed.

Title V and Temporary Dwellings: In addition to those projects upon which subsidy payments are made by the Commonwealth, the following projects are operated under the supervision of the State Housing Board, under authority of Chapter 372 of the Acts of 1946.

Title V: These projects were originally erected through the cooperation and under the control of the Federal Government, but were later transferred to the respective cities and towns under the management of the local housing authorities.

Any surplus realized from operations is turned over to the local city or town treasurer. As of July 31, 1954 there was a total of 1,208 units in this category.

Temporary Dwellings: Units described as Temporary Dwellings are also covered by Chapter 372 and are likewise supervised by the State Housing Board. These units are generally owned by the cities and towns and include municipal buildings converted for occupancy. The net income derived from such projects is turned over to the local government concerned. As of July 31, 1954 there was a total of 25 such units throughout the Commonwealth.

Chapter 372 - Sales of Houses: Under Chapter 372, when units are sold by a local authority the funds received are remitted to the treasurer of the city or town concerned. To the date of audit the following sales have been authorized to veteran occupants with the approval of the State Housing Board:

<u>City or Town</u>	<u>Number of Houses</u>	<u>Total Authorized</u>
Amherst	20	\$ 179,600 00
Boston	73	1,098,900 00
Brockton	19	129,825 00
Concord	11	78,600 00
Frammingham	3	31,500 00
Holyoke	60	374,831 75
Lawrence	1	8,036 00

West Springfield	43	\$ 309,176 00
	<u>230</u>	<u>\$2,210,468 75</u>

Subsidy Payments - Chapter 200: The first subsidy payments to local housing authorities were made during the 1951 fiscal year. To the date of this audit subsidy payments have been made as follows:

Fiscal Year 1951	\$ 591,625 00
Fiscal Year 1952	1,562,445 57
Fiscal Year 1953	1,904,306 99
Fiscal Year 1954	2,806,486 50
	<u>\$6,864,864 06</u>

It is understood that the estimated subsidy payments for the fiscal year 1955 will be \$2,856,867.30.

Because the final date for filing for new projects has already elapsed, it now appears that the total estimated costs of the completed projects and those under construction will not exceed \$200,000,000.00, the subsidy payments on a 2 1/2% basis could not possibly reach in any one year \$5,000,000.00. Furthermore, because of income being applied, the annual subsidy payments necessary when all projects are completed will probably average substantially less than that amount.

As a matter of information, attention is directed to the following policies which were being used by the Board in connection with subsidy payments:

Full subsidy - 2 1/2% bonds or notes - allowed first year. Thereafter, if the project operated on a profit basis, the surplus at the end of that fiscal year is analyzed. Adjustments are made where necessary to the respective reserves and the balances, if any, are applied as reductions of the subsequent year's subsidy.

To date the surpluses used as reduction of subsidies totaled \$931,238.09.

Subsidy payments are paid to the Fiscal Agent of the Authority, five months and fifteen days after the beginning of each fiscal year, on all projects which went into permanent financing prior to July 1, 1952. Beginning with the Bond issue as of July 1, 1952, the State Treasurer makes the payments of the annual subsidy as follows: 25% five months after the bond date, and the remaining 75% six months thereafter.

Attention is directed to the fact that those projects which had been entered into permanent financing on the so-called Note Basis will not actually receive any subsidy payments until the twelfth month when it will be entirely paid.

Progress of Chapter 200 Projects: The status of the Chapter 200 Projects as of July 31, 1954 follows:

Number of Communities with Projects in Construction Stage	3
Number of Projects in Construction Stage	3
Number of Units in Projects in Construction Stage	208
Number of Projects Completed for Occupancy	142
Number of Units Completed for Occupancy	15,254

In addition there were three projects on which construction had not yet been started. These will total approximately 64 additional units.

Administration Fund Agreements: It was noted that Administration Fund Agreements have not been completed for all projects, and as a result, the funds of these certain projects are not being deposited in approved banks.

This matter was brought to the attention of the proper authorities and it is understood that steps are being taken to negotiate the required forms.

Outstanding Bonds and Notes Under Permanent Financing: As of July 31, 1954, 115 projects were in permanent financing as follows:

102 Projects - Bonds Outstanding	\$109,619,000 00
13 Projects - Notes Outstanding	21,860,000 00
	<u>\$131,479,000 00</u>

The bonds indicated included 9 separate group issues which were made on a serial basis, maturing over a period of forty years, as follows:

<u>Date of Issue</u>	<u>Amount</u>	<u>Rate of Interest</u>	<u>Maturities</u>
October 1, 1950	\$ 9,568,000 00	1 3/4%	October 1, 1954/90
January 1, 1951	12,832,000 00	1 3/4%	January 1, 1955/91
April 1, 1951	8,767,000 00	1 7/8%	April 1, 1955/91
July 1, 1951	7,405,000 00	2 1/8%	July 1, 1955/91
October 1, 1951	12,821,000 00	2 %	October 1, 1954/91
January 1, 1952	10,028,000 00	2 1/4%	January 1, 1955/92
April 1, 1952	7,450,000 00	2 1/8%	April 1, 1955/92
July 1, 1952	10,385,000 00	2 1/4%	July 1, 1955/92
October 1, 1952	30,363,000 00	2 1/2%	October 1, 1954/92
	<u>\$109,619,000 00</u>		

The notes issued were in five different groups as follows:

<u>Date of Permanency</u>	<u>Amount</u>	<u>Net Rate</u>	<u>Maturity</u>
January 1, 1953	\$ 8,029,000 00	.6535%	January 25, 1955
April 1, 1953	700,000 00	.7442%	October 26, 1954
July 1, 1953	194,000 00	- *	July 26, 1955
July 1, 1953	7,340,000 00	- *	July 26, 1955
July 1, 1953	1,083,000 00	- *	July 26, 1955
July 1, 1953	839,000 00	- *	July 26, 1955
January 1, 1954	692,000 00	.6534%	January 25, 1955
January 1, 1954	1,835,000 00	.6536%	January 25, 1955
July 1, 1954	1,148,000 00	- *	July 26, 1955
	<u>\$21,860,000 00</u>		

- * Because of the premium received on this type of borrowing, a profit actually accrues to the respective cities and towns involved.

It will be noted that generally the notes were issued for only one year. It is understood that such arrangements were made for financing for the following reasons:

According to the Contracts for Financial Assistance bonds could not be issued at an interest rate exceeding 2 1/2% per annum. When bids were requested for bonds to be issued after January 1, 1953, the quotations were all made higher than 2 1/2% and accordingly could not be accepted, hence notes were issued as indicated. The projects of course went into Management and are now handled as other projects under the so-called permanent status. If at a subsequent date these notes are replaced with bonds, it is understood that the routine forty-year period of financing will be reduced by the number of years that the notes have been outstanding.

In this connection a previous audit report stated:

"In view of the fact that the interest rates on short-term loans are approximately one per cent less than the rates on long-term loans, it is difficult to understand why these projects have been financed on a permanent basis at times when the interest rates are higher because of the weakening of long-term bonds. It would therefore appear that the State Housing Board is not too much concerned with the economic consideration involved in these interest rates to be paid on long-term borrowings. This interest rate is a vital factor in the operations of the local projects, since the rents charged and the subsidy payments from the Commonwealth are affected by any increased charges which must be borne by the local projects.

"It is evident that some consideration must be given to the present and probably future levels of interest rates. Short-term borrowing programs might be advantageously combined with long-term borrowings

"pending the development of a more favorable opportunity for long-period borrowings. The utilization of the short-term market would relieve the local authorities of the burden of high interest charges."

It is understood that it is presently the intention of the State Housing Board to suggest long-term borrowings as soon as it becomes possible to make such arrangements at the rate of 2 1/2% or lower. It is hoped, however, that such action is not arbitrarily taken, but only after consideration has been given to all aspects of the problem, particularly with relationship to the rates in effect at that time for short-term borrowings.

Operating Reserves: It was noted that the operating reserves of the following projects appeared to be in excess of the maximum limits. However, they had not been adjusted because special work was necessary on the respective projects, the respective costs of which will reduce the reserves below the maximum.

Project	Maximum Limit of Reserve	Excess in Reserve 7/31/54	Necessary Special Work
Medford - 200-1	\$45,000 00	\$6,789 80	Absorbed Cost of Abandoned 200-2 Site
Grafton - 200-1	4,800 00	1,037 35	Painting, \$2,500.00
Easthampton - 200-1	9,300 00	566 78	Painting, \$5,296.00
Barnstable - 200-1	12,000 00	2,114 73	Painting, Cesspools and Hot Water Heaters, \$11,000.00
Gardner - 200-2	12,300 00	3,889 21	Painting, Furnaces, Hot Water Heaters, Floor Tiles, \$19,000.00
West Springfield - 200-1	27,000 00	798 18	Painting, Hot Water Heaters, \$24,000.00
Stoughton - 200-2	7,800 00	640 81	Painting, Storm Windows, \$5,100.00
Agawam - 200-2	3,600 00	1,187 28	Heating System
Wilmington - 200-1	3,900 00	15 25	Sewer Contract, \$759.37
Cambridge - 200-3	18,000 00	2,965 47	Adjusted Due to Wrong Entry
Bedford - 200-1	3,600 00	3,253 37	Sewer Contract, \$5,000.00
Clinton - 200-1	10,200 00	1,872 15	Hot Water Heaters, Canopies, \$9,550.00

Rent Delinquencies - Chapter 200 Projects: Attention is directed to the fact that rent delinquencies in the several projects continue to increase. Such delinquencies for all the Chapter 200 Projects totaled \$109,320.09 as of July 31, 1954, as compared with \$93,296.22 on June 30, 1953, an increase of \$16,023.87. It was further noted, in the period from July 1, 1953 to July 31, 1954 the State Housing Board had authorized the charge-off of accounts totaling \$15,329.93 as uncollectible.

Lowell Homesteads: Chapter 143 of the Acts of 1909 established the first law dealing with public housing in Massachusetts and authorized a special commission known as the Homestead Commission, to investigate the expediency of the Commonwealth acquiring or opening for settlement land in country districts in order to relieve congested tenement districts. Chapter 607 of the Acts of 1911 made this Commission a permanent State agency. The General Court appropriated \$50,000.00 in 1917 for an experimental project in the City of Lowell which was called the Lowell Homesteads. This appropriation was expended as follows:

Cost of Project:	
7 Acres of Land including a House	\$12,500 00
Cost of Erecting 12 Houses	28,128 77
Improvements	2,626 77
	<hr/>
	\$43,255 54
Unexpended Balance Returned to State Treasury	6,744 46
	<hr/>
	\$50,000 00

To July 31, 1954 the results of this project's operations were as follows:

Income from the Sale of Houses and Lots	\$53,237 92
Total Project Cost	(43,255 54)
Net Profit	<u>\$9,982 38</u>

The indicated net earnings of \$9,982.38, represented the proceeds from the utilization of only approximately 2.4 acres of land. At the present time approximately 4.6 acres of the original land purchased, with an assessed value of \$8,363.52, remains in the possession of the Commonwealth.

No other project was undertaken during the life of the Homestead Commission which was discontinued in 1919.

Insurance Coverage: All insurance required by local housing authorities is provided by so-called "Blanket" policies, which are arranged through the State Housing Board.

Each project is covered by three types of "Blanket" policies. These include Fire and Rent coverage, Public Liability and the Dishonesty, Destruction and Disappearance policy. The face values and maturities of the policies in effect follow:

<u>Kind of Insurance</u>	<u>Face Value</u>	<u>Maturity Date</u>
Fire and Rents Insurance	90% of Value	March 1, 1955 and August 24, 1956
Comprehensive Public Liability	\$100,000 00 300,000 00	July 27, 1955
Three "D" Policy - Dishonesty, Destruction and Disappearance	10,000 00 25,000 00 25,000 00 500 00	December 1, 1955

All projects are insured against fire damages from the date the project is accepted for occupancy, regardless of the date of issuance of the insurance certificate. When a local housing authority accepts a project in part, that part is immediately included in this policy, but the premium is withheld until the project is completed. A valuation is then made by the State Housing Board and premiums are accordingly paid.

Prior to acceptance of the project by the local authorities the contractors assume all such risks.

Annual Report: It was noted that the Annual Report for the fiscal year ending June 30, 1954 was not available for examination in connection with this audit.

Old Age Housing Program: Chapter 667 of the Acts of 1954 authorized \$15,000,000.00 for an Old Age Housing Program. To date of audit approximately \$8,500,000.00 has been allocated to 29 cities and 22 towns, all of which have already begun preliminary work in connection with this program.

ATHOL HOUSING AUTHORITY

REPORT NO. 55-H-13

Commonwealth Contribution: The Commonwealth may make an annual contribution of not more than 2 1/2% of the total Development Cost. For the second year under Permanent Financing the maximum amount payable in the amount of \$10,500.00 was paid to the National Shawmut Bank of Boston, the fiscal agent for this Authority.

For the third year under Permanent Financing, the contribution from the Commonwealth has not yet been determined as instructions regarding the disposition of the surplus from the second year of operation is still pending.

This surplus totaled \$1,298.75 and no transfer has yet been made. It is suggested that consideration be given to its use toward the reduction of the Commonwealth's annual contribution.

Payment in Lieu of Taxes: Payments made to municipalities in lieu of taxes are now being computed on a different basis by direction of the State Housing Board. Under the new arrangement the tax is computed on the basis of \$3.00 per unit per month, whereas formerly it was computed on the basis of 5% of the rental collections. For the fiscal year ended June 1954 the taxes, with the new basis being used for the last two

quarters of the year, were \$151.00 more than if they had been computed on the former basis for the entire year.

Obviously, the taxes will be still larger when the new rate is applied for an entire year.

In view of the foregoing, it follows that the surplus will accordingly be reduced thereby effecting any transfer to "Reduction of Annual Contribution Reserve". This, of course, will cause the contributions from the Commonwealth to be correspondingly increased.

Minutes of the Meetings: Attention is directed to the fact that this important record had not been maintained during the audit period. A similar situation has existed for the past three years.

In this connection a member of the Authority stated he keeps such records in shorthand on loose sheets, but has not had an opportunity to transcribe them to a permanent book in long hand. It is suggested that arrangements be made at once for the transcription of this most important record.

Investments: It was noted that the Administration Fund has had a substantial balance on deposit during the year. This situation applied during the previous audit period and it was suggested in the audit report of the previous year that a portion of these funds be invested, thereby earning interest.

In addition to the foregoing funds, the Development Fund includes a balance of \$7,657.98 for Accounts Payable - Development although the balance on August 31, 1954 was only \$4,186.23.

WORCESTER HOUSING AUTHORITY

REPORT NO. 55-H-14

Temporary Construction Projects

Surplus: The previous audit report stated that the operating surplus from this project at the end of 1952 had not been transferred to the City of Worcester. The reason then given was that inasmuch as the project was to be closed in the near future and a final accounting made to the City of Worcester, the transfer of all surplus, reserves, etc., would be simultaneously then made. However, for the 1953 year this project operated at a deficit and consequently the surplus was accordingly reduced from \$10,053.38 to \$7,445.75. There still has been no transfer of these funds to the City.

This project has been completely razed since April 1, 1954, and there now appears to be no valid reason for any delay in closing this project and making the final accounting. It is therefore recommended that arrangements be expedited to turn over all funds and accounts pertaining to this project to the City of Worcester.

Project 200-1

Commonwealth Contribution: It is anticipated that the Commonwealth's contribution for the fourth year under Permanent Financing will be \$51,899.23, computed as follows:

2 1/2% of the Development Cost	\$68,000 00
Less:	
Prior Year's Surplus reserved for Contribution Reduction	16,100 77
	<u>\$51,899 23</u>

It is understood that this amount will be paid to the Authority's fiscal agent, the National Shawmut Bank of Boston, on or about September 15, 1954.

Project 200-2

Commonwealth Contribution: The Commonwealth's contribution for the second year of operations under Permanent Financing was \$114,100.00 and was computed as follows:

2 1/2% of Development Costs	<u>\$114,100 00</u>
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Of this total contribution due, \$28,525.00 was received on March 31, 1954, and the remainder of \$85,575.00 on August 31, 1954.

These amounts were paid to the Merchants National Bank of Boston, the fiscal agent of the Authority.

Rental Income Loss - Insurance: The rental income loss due to the tornado is based on the rent roll prior to the destruction of the project and was prorated until the project was completely reconstructed and as a result the account for Accrued Accounts Receivable - Rental Loss showed a total of \$54,003.22 on date of audit. However this money has not yet been received from the insurance company. This matter should be pressed, and possibly the Attorney General's office should be consulted as to the delay in settlement of this claim which is apparently covered by the "Fire and Rents" policy in effect.

Project 200-2: There has also been a delay with regards to the insurance settlement of the reconstruction costs and the cost of the equipment, office furniture, tools, etc., which were part of the inventory at the time of the tornado disaster in June 1953.

As a result, the Authority was forced to borrow \$225,000.00 from a local bank at interest charges of 3% on a six months note, renewable for two additional six months periods at a rate of 3 1/4% in order to pay the contractors for work completed.

It is suggested that possibly this Authority should amend its claim to include the cost of monies borrowed.

Both Projects 200-1 and 200-2

Payment in Lieu of Taxes: Payments made to municipalities in lieu of taxes are presently being computed on a new basis by direction of the State Housing Board. Under this new arrangement the tax is computed at \$3.00 per unit per month, whereas formerly it was computed on the basis of 5% of the shelter rents. For the two projects in the fiscal year ended within this audit period, these taxes were \$2,152.58 and \$4,831.48 respectively greater than if they had been computed on the former basis, as follows:

Project 200-1:

Fiscal Year Ended March 31, 1954:

New Basis - \$3.00 per Unit per Month	\$7,344 00
Old Basis - 5% of Shelter Rents	5,191 42
	<u>\$2,152 58</u>

Project 200-2:

Fiscal Year Ended September 30, 1953:

New Basis - \$3.00 per Unit per month	\$14,040 00
Old Basis - 5% of Shelter Rents	9,208 52
	<u>\$4,831 48</u>

Variances Between the Controlling Tenants' Accounts Receivable Accounts in the Central Office and the Totals as Compiled from the Subsidiary Accounts Receivable Ledgers Maintained in the Project Offices: The total of the charges and credits was compiled from the individual accounts in the Tenants' Accounts Receivable ledgers which are maintained in the project offices and was compared with their respective controlling accounts in the central office for the period from August 1, 1953 to August 31, 1954. In the case of Project 200-1 variances between these two sets of records were noted in two of the thirteen months concerned. In Project 200-2 these accounts were not in reconciliation in eleven of the thirteen months.

A comparable situation was noted at the time of a previous examination and was then called to the attention of the Authority. It appeared at that time that a system was being installed whereby, by the use of a monthly summary sheet at the project office, in addition to the rent roll existing at the time, a reconciliation would be effected monthly.

However, the summary sheets at the project office agree with the controlling accounts, yet, the total of the individual tenants' accounts do not always agree with the summary sheets. Certain adjustments or miscellaneous charges were apparently made on the summary sheets and the control account but were not recorded in the individual tenants' accounts.

These accounts are maintained by bookkeepers at the respective projects and accountants located in the central office. In addition, accountants are engaged on a regular fee basis to advise and assist regular employees. It is therefore evident that there is sufficient personnel available to insure the proper control of these accounts.

Old Aged Housing: This Authority has been granted authorization by the State Housing Board, for the construction of 150 units for the aged and in this connection the Lincolnwood site has been approved by the Worcester City Council for the location of 75 units. The site location for the other 75 units has not yet been designated.

As yet, no funds have been borrowed for the construction of this project, however, it is anticipated that the bids to finance this project will be requested in the near future.

In order to begin the preliminary work of this project three contracts have been entered into as follows:

Architectural (\$225.00 per Unit)	\$16,875 00
Test Borings (estimated)	217 00
Topographical	200 00
	<u>\$17,292 00</u>

BROCKTON HOUSING AUTHORITY

REPORT NO. 55-H-15

Chapter 200 - Commonwealth Contributions: During the audit period this Authority had either received or had been officially advised of annual Commonwealth Contributions as follows:

<u>Project</u>	<u>For the Fiscal Year Ending</u>	<u>Maximum Contribution</u>	<u>Amount of Contribution Authorized</u>
200-1	Dec. 31, 1954	\$28,750 00	\$18,447 04
200-2	Dec. 31, 1954	17,300 00	17,300 00

Project 200-1 - Surplus: The surplus of this project totaled \$10,302.96 for the third fiscal year under Permanent Financing ended December 31, 1953.

It was noted that the State Housing Board directed the Authority to reserve this entire surplus for the purpose of reducing the Commonwealth Contribution for the 1954 year.

Project 200-2 - Termination of Initial Operating Period: The Initial Operating Period of this project started November 24, 1952, the date of the first tenancy, and ended on December 31, 1953. It was noted, however, that the financing of this project has been continued under Temporary Notes.

It was also noted that the total net income for the Initial Operating Period totaled \$13,629.53, of which \$6,613.75 was used to reduce the total development cost to \$692,000.00. The remainder was used to provide for various reserves. This distribution was made at the suggestion of the State Housing Board.

Chapter 372 Project - Surplus: It was noted that a payment of \$7,696.11, representing the surplus from operations for the year ended December 31, 1953, was made to the City of Brockton during this audit period.

Chapter 372 Project - Subsidy: While the audit was in progress this Authority was notified by the State Housing Board that the final subsidy payment of \$3,139.86 was due the City of Brockton by the Commonwealth.

Chapter 372 Project - Sale of Units: During the period under audit this Authority, with the approval of the State Housing Board, voted to sell the nineteen units of this project.

In this connection it was noted that the sales price of the individual units was not less than the minimum sales price approved by the State Housing Board.

The total selling price for these units totaled \$129,825.00 of which \$122,925.00 was received and turned over to the City of Brockton during the period under audit. The balance of \$6,900.00 was received while this audit was in progress.

General - Inspection of the Projects: A cursory inspection of the exterior of the projects indicated the following:

Project 200-1

The houses of this project are of wood frame construction with clapboards. When constructed, gutters on the roofs were not included in the plans. As a result, rain water

splashes from the roofs on to the sides of the houses and the doors. The lower part of the doors become rain soaked and rotted which necessitates the rebuilding of these doors periodically.

The Authority is of the opinion that the installing of gutters on the houses is most important in order to eliminate greatly increased maintenance costs in the future.

The houses are also badly in need of exterior painting.

It is understood that the installing of gutters and the repainting of these units will result in the expenditure of a considerable amount of money, which will probably be charged to the Operating Reserve.

Project 200-2

The houses of this project are of wood frame construction with brick veneer and appear to be in a good condition.

Project 200-1 - Tenants' Accounts Receivable: The following shows the comparison of the balances of the Tenants' Accounts Receivable as of the current audit date and the previous audit date for Project 200-1:

	<u>Total</u>	<u>Current Month</u>	<u>Second Month</u>	<u>More Than Two Months</u>	<u>Vacated</u>
August 31, 1954	\$2,719 57	\$1,105 88	\$498 00	\$491 00	\$624 69
August 31, 1953	<u>1,082 67</u>	<u>498 31</u>	<u>64 00</u>	<u>4 00</u>	<u>516 36</u>
Increase during Period	<u>\$1,636 90</u>	<u>\$607 57</u>	<u>\$434 00</u>	<u>\$487 00</u>	<u>\$108 33</u>

Since the balance outstanding as of the date of audit is approximately 60% of the average monthly rental income of the project, it is evident that the Authority should make more forceful efforts to effect collections.

In further connection with this matter, a review of the accounts of the individual tenants indicated that ten were in arrears from three to seven months.

Attention of the Authority is also called to the suggested procedure for rent collections as outlined by the State Housing Board.

LAWRENCE HOUSING AUTHORITY

REPORT NO. 55-H-16

Chapter 372 - Sale of Homes: As of the date of audit this Authority had accepted deposits of \$100.00 each from 62 individuals on sales agreements for the single dwellings constructed under Chapter 372. It is expected that all of the 100 units will be sold before the end of the year.

In this connection it was noted that the Authority will prepare all the necessary papers and secure approvals of the sales from the State Housing Board. The deeds will be approved by the City Council and will be signed by the Mayor. Payment of the purchase price will be made directly to the City Treasurer when the sale is effective.

It is also understood that prior to the sale of these units, the Authority will paint the exteriors and make certain other necessary minor repairs.

Chapter 200-1 - Administration Fund: As of the date of audit the balance in the Administration Fund totalled \$84,589.95. After reviewing the cash requirements of this project, it is apparent that a portion of this balance should have been invested. This matter was discussed with the Executive Director who advised that this subject is under consideration.

Chapter 200-1 - Repairs, Maintenance and Replacements: The examination of the expense accounts indicated that there had been expended \$23,774.45 for repairs, maintenance and replacements for the fiscal year ending June 30, 1954 as compared with \$20,503.00 budgeted therefor. This increase of \$3,271.45 was attributed to additional costs for interior painting. It was explained by the Executive Director that the extra amount became necessary because of a larger number of movouts than was originally anticipated.

In this connection it was noted that the Authority had paid a private painting contractor \$2,867.25 during this audit period, and that this contractor was retained without competitive bidding. The Executive Director explained that there was no competitive bidding in this instance because of the following reasons:

1. Work was done on a time and material basis.
2. The work constituted the painting of unoccupied apartments that had been vacated by tenants.
3. Time did not allow for the calling of bids.
4. Each individual item was less than \$500.00.

Chapter 200-1 - Surplus from Operations: The surplus from operations, after taking into consideration the Commonwealth's Contribution of \$48,048.14 and the Contribution Reduction of \$11,951.86 reserved from the prior year's surplus, was \$6,819.91 for the third fiscal year under Permanent Financing which ended on June 30, 1954. This amount will be used to reduce the Commonwealth's Contribution for the fourth fiscal year which will end June 30, 1955.

General - Payments to City of Lawrence: During the period under audit the Authority remitted \$55,335.49 to the City of Lawrence comprised of the following:

Chapter 372:		
Balance of Municipal Appropriation	\$12,115 34	
Surplus - Year 1953	<u>28,651 77</u>	\$40,767 11
Chapter 200-1:		
Payment in Lieu of Taxes		12,013 98
Chapter 200-2:		
Payment in Lieu of Taxes		<u>2,554 40</u>
		<u>\$55,335 49</u>

Housing for the Elderly: It was noted that the State Housing Board has granted the Authority a tentative allotment of 35 dwelling units to be constructed under Chapter 667 of the Acts of 1954, which provides for the construction of Housing for the Elderly.

LOWELL HOUSING AUTHORITY

REPORT NO. 55-H-17

Tenants' Accounts Receivable - General: On the date of audit the following outstanding rent balances were due from tenants:

Temporary Construction	\$3,395 67
Project 200-1	<u>5,963 79</u>
	<u>\$9,359 46</u>

The foregoing amounts include the following which have been outstanding more than six months:

Temporary Construction	\$2,436 62
Project 200-1	<u>2,094 57</u>
	<u>\$4,531 19</u>

It is again recommended that steps be taken to dispose of these items in accordance with the regulations prescribed by the State Housing Board, if it is determined that there is no possibility of their collection.

It was further noted that items of this nature totaling \$1,672.16 were written off as uncollectible during the current audit period.

The delinquent rents indicated appear quite high and have been outstanding for extended periods. It is also noted that the balances due on the Temporary Construction Project generally represent amounts due from tenants who no longer reside in these units.

This entire matter was discussed with the Executive Director who advised that the accounts of the present tenants in Project 200-1 are being closely followed and it is hoped that the balances now due will be reduced. It is also understood that the economic conditions in this particular area are poor at the present time.

Furthermore, it was noted that a system of collecting rents on a weekly basis was inaugurated as of September 1, 1954. This arrangement should result in smaller rent delinquency accruals.

Status of Temporary Construction Project: This Authority is preparing to return the balance of these units to the City of Lowell to be demolished. During the current

audit period 81 of these units were returned and on the date of audit 8 still remained under the control of the Authority and were still occupied. While the audit was in progress 5 of these remaining units were vacated and returned to the City. It is now anticipated that the remaining 3 units will be vacated within a short time. When these units are returned, the accounts will all be closed with the exception of the accounts receivable, the collection of which will be attempted by the Authority with the assistance of an attorney whenever it is necessary.

The accounts of this Project reflected a deficit of \$1,627.39 as of September 30, 1954. It was noted, however, that what appeared to be excessive reserves had been established. A supplementary adjusting entry was effected to correct the Reserve for Vacancy and Collection Losses, in which a balance of \$3,168.00 had been carried since 1950. This item was actually a duplication inasmuch as another reserve to include all receivables had been originally set up. After taking into consideration this adjustment a surplus of \$1,540.61 resulted. Upon the liquidation of this account this amount should be remitted to the City of Lowell.

Chapter 200-1 - Permanent Financing: It was mentioned in the previous audit report that Permanent Financing of this Project would be arranged when two matters in litigation were settled. In this connection it was noted that these items have been adjudicated and the Project will go into its permanent status in the near future at the discretion of the State Housing Board.

Investments - Project 200-1: It was noted that the cash balance in this project was \$157,641.95 as of September 30, 1954, and it was further noted that an amount in excess of \$100,000.00 had been carried in this account for more than a year.

It was suggested that the greater portion of these funds be invested in United States Securities so that some income may be earned. As a result, while this audit was in progress, United States Treasury Notes in the amount of \$100,000.00 were purchased.

Vacancy Losses - Project 200-1: It was noted that the vacancy losses for this project appeared to be unusually high. A complete analysis for the period under audit was made and it was indicated that 1,969 days were charged as vacancy loss involving 53 apartments. It was also noted that an additional 286 days had been charged against the same apartment vacancies during the previous audit period, resulting in a total of 2,255 days in this category for the apartments indicated. This total will undoubtedly be increased because those apartments which have recently been vacated have not yet been reconditioned and made ready for occupancy and, therefore, will, of course, reflect vacant days in the ensuing few months. It further appears that it has taken an approximated average of 43 days to recondition each apartment. This does appear to be a long period and steps should be taken to expedite the reconditioning of the various units.

The executive director attributed the vacancy losses to the unusually large turnover of tenants. It was further understood that there has been a waiting list of selected tenants since the completion of this Project.

ATTLEBOROUGH HOUSING AUTHORITY

REPORT NO. 55-H-18

Chapter 372 - Subsidy: During the period under audit the City of Attleboro received \$6,079.91 from the Commonwealth as the final 2% payment on the subsidy due for this project.

The total subsidy paid by the Commonwealth on this project to the date of audit totaled \$30,399.37, and represents 10% of the total development costs of \$303,993.68.

Chapter 372 - Surplus: The operating surplus for this project on the cash basis aggregated \$12,091.13 for the 1953 calendar year.

It was noted, however, that the Authority paid \$12,292.63 to the City of Attleboro as the surplus for that period. This difference was due to the fact that the Authority had computed the profit on the accrual basis.

The results of operations for the first nine months of the 1954 calendar year indicated an operating surplus of \$9,511.10, calculated on the cash basis.

Chapter 200-1 - Termination of Initial Operating Period: The Initial Operating Period of this project began December 1, 1951, the date of the first tenancy and ended June 30, 1954. However, it has been continued under Temporary Financing.

The profit from operations during the Initial Operating Period was \$60,220.93, and of this amount \$23,608.81 was used to provide for the various reserves, while \$36,612.12 was applied to reduce the total development costs.

Chapter 200-1 - Payment in Lieu of Taxes: As of the date of audit, the balance in the account for Accrued Payments in lieu of Taxes was \$5,859.00.

It was noted, however, that no payments of this nature for the 1953 calendar year had yet been made to the City of Attleboro.

GLOUCESTER HOUSING AUTHORITY

REPORT NO. 55-H-19

Project 200-1 - Accounts Payable and Development Costs: It was noted that the accounts payable included an item of \$9,261.02, representing a contract claim by the general contractor, for the additional cost of procuring western frame lumber as a substitute for eastern frame lumber, originally specified and ordered. This claim has been disallowed by the State Housing Board.

This amount, however, has been included in the final development costs. When this item is finally liquidated, a bookkeeping adjustment will accordingly become necessary. It is suggested that a savings on this amount be applied toward the reduction of the Commonwealth's subsidy payment.

EVERETT HOUSING AUTHORITY

REPORT NO. 55-H-20

Project 200-1 - 1954 Fiscal Year Operations: For the fiscal year ended June 30, 1954, this project was operated at a loss of \$63,415.01 before application of the Commonwealth's Contribution of \$77,050.00. The surplus of \$13,634.99 resulting from this adjustment was transferred to the Operating Reserve.

Project 200-1 - Operating Reserve: It was noted that the charges to the Operating Reserve account for the period under audit totaled \$33,501.59. This amount was expended as follows:

Painting	\$12,998 10
Hot Water Heaters	13,608 12
Storm Damages	1,276 01
Legal Expenses	750 00
Payments in Lieu of Taxes	3,377 86
Sump Pumps	566 47
Typewriter (exchange)	82 50
Oil Tank	36 00
Underestimate of Accounts Payable for Development	806 53
	<u>\$33,501 59</u>

Project 200-2 - 1953 Calendar Year Operations: For the fiscal year ended December 31, 1953, this project was operated at a loss of \$17,628.17 before applying the Commonwealth's Contribution of \$19,150.00. The surplus of \$1,521.83, which resulted after the application of this subsidy, was transferred to the Operating Reserve.

Project 200-2 - Operating Reserve: It was noted that the charges to the Operating Reserve account for the period under audit amounted to \$3,909.76. Of this amount \$2,160.40 was expended for painting, \$668.90 for accounts payable which were due Project 200-1, \$674.50 for payments in lieu of taxes, and \$405.96 for hot water heaters.

SWAMPSCOTT HOUSING AUTHORITY

REPORT NO. 55-H-21

Surplus from Operations: The operating surplus, after taking into consideration the Commonwealth's Contribution of \$6,195.73 and the Contribution Reduction of \$3,954.27 which was reserved from the prior year's surplus, totalled \$2,463.67 for the third fiscal year under Permanent Financing, which ended on December 31, 1953. This surplus was applied toward the reduction of the Commonwealth's Contribution for the fourth fiscal year.

Payments to Town of Swampscott: During the period under audit the Authority remitted \$2,592.00 to the Town of Swampscott which represented payment in lieu of taxes for the calendar years 1953 and 1954.

BEVERLY HOUSING AUTHORITY

REPORT NO. 55-H-22

Temporary Construction Projects: As of the date of audit, the Authority had sold

thirty-five of the thirty-six Quonset huts originally operated by it. The one remaining hut was not rented because it was to have been turned over to a youth organization. This was not done, however, because the organization lost the proposed site for the hut. At the present time the Authority is awaiting a decision of the City officials with respect to the final disposition of this one hut.

The surplus from operations for the calendar year ending December 31, 1953 totaled \$3,430.71 and was remitted to the City of Beverly during August, 1954.

Project 200-1 - Surplus from Operations: The surplus from operations, after taking into consideration the Commonwealth contribution of \$11,858.48 and the Contribution Reduction of \$6,241.52 reserved from the surplus of the prior year, totaled \$6,066.55 for the third fiscal year under Permanent Financing which ended on March 31, 1954. This surplus will be used to reduce the Commonwealth's contribution of the fourth fiscal year.

STOUGHTON HOUSING AUTHORITY

REPORT NO. 55-H-23

Disposition of Surplus: During this audit period disposition of the operating surplus for the fiscal year ending March 31, 1954 was made with the authorization of the State Housing Board as follows:

<u>Amount of Surplus</u>	<u>Transfer to Operating Reserve</u>	<u>Transfer to Reduction of Commonwealth Contribution</u>
<u>\$2,882 48</u>	<u>\$1,200 00</u>	<u>\$1,682 48</u>

In connection with the transfer to the Operating Reserve, it was noted that the balance in that account as of the date of audit was \$8,440.81, yet the maximum indicated in the Management Program was set at \$7,800.00.

Commonwealth Contribution: During this audit period the Authority had either received or had been officially advised of annual Commonwealth Contributions as follows:

<u>For the Fiscal Year Ending</u>	<u>Maximum Contribution</u>	<u>Amount of Contribution Authorized</u>
3/31/54	\$7,625 00	\$6,985 00
3/31/55	7,625 00	5,942 58

HOLYOKE HOUSING AUTHORITY

REPORT NO. 55-H-24

Chapter 372

Sale of Houses: It was noted that the sale of the sixty-two dwelling units, as provided by Chapter 372 of the Acts of 1946, as amended, is now in the process of being effected. As of the date of this audit, fifty-five units had been sold and options have been granted on the remaining seven. The proceeds from those sold in the amount of \$345,239.75 were turned over to the City of Holyoke.

As of November 30, 1954, the indicated cost to the city of the sale of these sixty-two units totaled \$64,104.75, and was determined from the records of this Authority as follows:

Cost of Construction (62 Units)	\$550,591 81	
Interest on Bonds, 15 Years	71,925 00	
Excess Cost to City, Transfer from Temporary Financing to Permanent Financing	<u>300 00</u>	
Total Cost		\$622,816 81
Less:		
Revenue from Operations	\$113,245 76	
Subsidy from State	55,059 20	
Sale of 62 Units	<u>387,833 75</u>	

Balance of Development Cost		
Paid to City	708 19	
Surplus November 30, 1954	<u>1,865 16</u>	<u>558,712 06</u>
Excess Cost over Revenue, November 30, 1954		<u><u>\$64,104 75</u></u>

The actual loss cannot be determined until the records have been closed and the method of investing the proceeds of the sale of the houses by the city can be determined.

The cost as reported herein will be offset by future tax revenue accruing to the city now that these homes are privately-owned. Attention is also directed to the fact that sale of these units is mandatory under existing statutes.

Project 200-1

Debt Service Payments: The Holyoke Housing Authority pays into its Debt Service Fund each year from rental income an amount which together with amounts received from other sources equals that fiscal year's total debt requirement. The debt requirement for the 1954 fiscal year was computed as follows:

Bonds Maturing and Interest		
Payable January 1, 1955		\$73,872 50
Less:		
State Contribution	\$17,044 94	
Contribution Reduction	<u>31,005 06</u>	
Interest on Investment	542 50	
1/40 of Premium	<u>858 23</u>	<u>49,450 73</u>
Project Share of Debt Requirement		
Paid October 18, 1954		<u><u>\$24,421 77</u></u>

Commonwealth Contributions: This Authority has received to date, as provided in its Contract for Financial Assistance with the Commonwealth, subsidy payments in the amount of \$85,336.94. These subsidy payments represent the Commonwealth's participation in maintaining low rents as follows:

<u>Year</u>	<u>Amount of Subsidy</u>	<u>Commonwealth's Share per Tenant per Month</u>
1952	\$48,050 00	\$18 29
1953	20,232 00	7 70
1954	17,044 94	6 49

Investment of Surplus Cash: It was noted that the surplus cash of this project was not being invested in compliance with instructions from the State Housing Board. It is therefore recommended that such balances be invested in a manner approved by the Chairman of the State Housing Board.

FRAMINGHAM HOUSING AUTHORITY

REPORT NO. 55-H-25

Title V and Project 372 - Transfer of Surplus: During this audit period the following surplus transfers were made to the Town of Framingham:

	<u>Title V</u>	<u>Chapter 372</u>
1953 Year:		
3rd Quarter	\$ 3,105 59	\$ 3,333 16
4th Quarter	2,275 91	4,489 24
1954 Year:		
1st Quarter	1,113 75	4,384 83
2nd Quarter	2,795 41	-
3rd Quarter	<u>2,896 23</u>	<u>-</u>
	<u><u>\$12,186 89</u></u>	<u><u>\$12,207 23</u></u>

No transfers were made from the Chapter 372 Project after the first quarter because the project is being sold. It is anticipated that all of these funds will be turned over to

the Town subsequent to the final sale being made.

Chapter 372 - Sale of Dwellings: This project originally comprising twenty buildings totaling forty units has been sold with the exception of one building of two units. Fourteen of the buildings were sold to veterans residing in the project, two were sold to veterans who were residing in Project 200-2 and three were sold to veterans residing in the Town of Framingham. The remaining building is being retained by the Town of Framingham for possible use as a municipal building.

The total which will be realized from the sale of this project is \$193,300.00, as follows:

Total Appraisal Value	\$203,500 00
Less:	
Appraisal Value of Building Retained	<u>10,200 00</u>
Gross Selling Price Potential	<u>\$193,300 00</u>
Proceeds to be Realized from Sales	<u>\$193,300 00*</u>

* Includes six buildings, valued at \$61,300.00 which were sold subsequent to this audit period, in the month of December 1954.

It is interesting to note this project will be sold at a profit in excess of \$6,000.00, computed as follows:

Certified Cost	\$280,258 19	
Add:		
Financial Charges (Interest) Paid by Town of Framingham		<u>18,809 00*</u>
		\$299,067 19
Deduct:		
Surplus Payments to Framingham:		
To 1952	\$62,770 84	
1953	16,770 79	
First Quarter 1954	<u>4,384 83</u>	
	\$83,926 46	
Subsidy Payments by Commonwealth	<u>28,025 80</u>	111,952 26
Approximate Cost - as Adjusted		<u>\$187,114 93</u>
To Be Realized from Sale of Project		<u>\$193,300 00</u>
Approximate Gain		<u>\$6,185 07**</u>

* This figure was received from the State Housing Board as interest paid by Town of Framingham.

** This figure is subject to adjustment at time of closing of the books.

In addition, the Town of Framingham retains one building of two units which may be used for the benefit of the Town.

There will be a further benefit in that there will be real estate taxes on the property sold, which has an assessed valuation of \$96,300.00.

Projects 200-1 and 200-2

Commonwealth Contribution: The Commonwealth may make an annual subsidy contribution of not more than 2 1/2% of the final development costs. These contributions for the fourth year of operations under Permanent Financing will total \$24,791.30 for Project 200-1 and \$15,135.12 for Project 200-2, computed as follows:

	Project 200-1	Project 200-2
2 1/2% of Development Costs	\$33,400 00	\$21,000 00
Deduct:		
Transfer of Third Year's Surplus for Reduction Reserve	8,608 70	5,864 88
	<u>\$24,791 30</u>	<u>\$15,135 12</u>

It is understood that the foregoing contributions will be paid to the First National bank of Boston, the fiscal agent of this Authority, on or about December 15, 1954.

REVERE HOUSING AUTHORITY

REPORT NO. 55-H-26

Temporary Project - Surplus: The surplus for the 1953 year was computed as \$11,517.08 and was remitted to the City of Revere on February 11, 1954. This surplus was not paid as an income item but as "Payment in Lieu of Taxes" and is so classified on the records of the Authority.

Temporary Project - Demolition of Project: It was noted that 32 units located at Winthrop Court consisting of 8 buildings were demolished during the month of November 1954. Invitation for bids were sent to 4 wrecking companies, and the contract was awarded to the most advantageous bidder of record. The contractor was paid \$175.00 per building or a sum of \$1400.00. It was also learned that the remaining units will be demolished as they are vacated. It is anticipated that all buildings will be demolished as of December 31, 1955.

Chapter 200-1 - Temporary Financing

Deposit of Premium Fund: Attention is directed to the fact that the premium of \$291,012.00 received from the sale of notes under temporary financing had been segregated for deposit and investment. Of this amount Treasury Notes in the amount of \$285,000.00 were purchased during this audit period.

LYNN HOUSING AUTHORITY

REPORT NO. 55-H-27

General - Delinquent Rents: The balances of the Tenants' Accounts Receivable of the three projects indicated what appeared to be unusually large amounts due from tenants. This condition has continued for an extended period and it is urged that steps be taken to correct it. For comparative purposes the balances due as of December 31, 1954 and December 31, 1953 follow:

Project	Balances Due Dec. 31, 1954	Tenants in Occupancy	Move-Outs
200-1	\$ 1,916 67	\$ 986 37	\$ 930 30
200-3	877 32	597 07	280 25
200-4	9,504 16	4,787 18	4,716 98
	<u>\$12,298 15</u>	<u>\$6,370 62</u>	<u>\$5,927 53</u>

Project	Balances Due Dec. 31, 1953	Tenants in Occupancy	Move-Outs
200-1	\$ 883 10	\$ 760 96	\$ 122 14
200-3	607 40	607 40	-
200-4	7,398 17	3,097 99	4,300 18
	<u>\$8,888 67</u>	<u>\$4,466 35</u>	<u>\$4,422 32</u>

In addition to the foregoing, amounts were charged off during the period of audit, in the amount of \$218.64 for Project 200-1 and \$1,422.95 for Project 200-4.

It was noted that the majority of the accounts due from tenants who had vacated or had been evicted were in the hands of a collection agency. Collections made by this

agency were reported monthly to the Authority.

Project 200-4 - Cash Balances: As of the date of audit the balance in the Development Account was \$87,160.97 and in the Administration Account \$147,151.56. While the Development Account fund might be required currently, there appeared to be no apparent reason for maintaining such a large balance in the Administration Account. It was suggested that the greater portion of the balance be invested in United States Treasury Notes or Certificates of Indebtedness which could be cashed promptly if cash were required.

Project 200-4 - Administration and Development Accounts: The records of the Authority present a distorted position in the Administration and Development Accounts. These accounts included the following:

Account Receivable - Administration (from Development)	\$30,300 04
Account Receivable - Development (from Administration)	19,900 00

It would appear from the foregoing that the Development account owed the Administration account \$10,400.04. Actually, the Account Receivable - Administration in this connection should have been shown as \$214,454.19, a difference of \$204,054.15, and there should not have been an Account Receivable - Development (from Administration). On analysis, it was determined that these differences developed as follows:

The advance made from the Administration Fund to the Development account, for the payment of interest on the sixth and seventh series notes on July 27, 1954 in the amount of \$164,254.15, had not been set up as an Account Receivable - Administration, with a contra Account Payable by the Development account.

The balance of the \$204,054.15 difference, or \$39,800.00, resulted from a disbursement of \$19,900.00 being incorrectly made from 200-4 Development account for an item that applied to the Federal project. An account receivable was established erroneously owing Development from Administration. When reimbursement was subsequently made the account receivable - Administration from Development was credited and resulted in a gross error of \$39,800.00 as this reimbursement should have closed the Development account receivable and not reduced the receivable account of Administration from Development.

The entries necessary to adjust these differences were brought on the books through supplementary entries.

Project 200-4 - Landscaping: This project was visited and the grounds appeared to be in poor condition. In this connection it was noted in the prior audit report that the lawn and planting work which had not been specified in the original construction contract had never been accomplished. The Authority had intended to do this work under a separate contract, but because the actual construction costs exceeded those estimated, the funds which had been borrowed under the terms of the Contract for Financial Assistance were exhausted.

This matter is still pending but it is understood there has been a compromise with the Mayor of Lynn, who had not signed the amended Contract for Financial Assistance submitted in June 1952. Bids will be requested when the revised specifications are received from the architect.

NEW BEDFORD HOUSING AUTHORITY

REPORT NO. 55-H-28

Housing for the Elderly: During the current audit period this Authority submitted an application for a project for Housing for the Elderly under the provisions of Chapter 667 of the Acts of 1954.

To date of this audit, this application had not been processed by the State Housing Board.

Commonwealth Contribution: During this audit period this Authority had either received or had been advised of annual Commonwealth Contributions, as follows:

Project	For the Fiscal Year Ending	Maximum Contribution	Amount of Contribution Authorized
200-1	Dec. 31, 1954	\$24,000 00	\$17,731 65
200-2	Sept. 30, 1955	36,400 00	27,058 80
200-3	Mar. 31, 1955	19,925 00	11,910 54

Disposition of Surplus: During this audit period disposition of the projects' operating surpluses was made with authorization of the State Housing Board, as follows:

Project	For the Fiscal Year Ending	Amount of Surplus	Transfer to Reduction of Commonwealth Contribution
200-1	Dec. 31, 1953	\$6,268 35	\$6,268 35
200-2	Sept. 30, 1954	9,341 20	9,341 20
200-3	Mar. 31, 1954	8,014 46	8,014 46

WESTFIELD HOUSING AUTHORITY

REPORT NO. 55-H-29

Debt Service Payments: This Authority pays into its Debt Service Fund through its fiscal agent each year from rental income an amount which together with amounts received from other sources will equal that year's total debt requirements. On February 1, 1955 this Authority will pay to the fiscal agent the sum of \$8,660.01 for this purpose which has been computed as follows:

Principal and Interest Due		\$27,002 50
Less:		
State Contribution	\$13,836 38	
Contribution Reduction	4,413 62	
1/40 Premium on Bonds	57 49	
Income on Investments	35 00	18,342 49
Project Requirement		<u>\$8,660 01</u>

Commonwealth Contribution: This Authority has received through its fiscal agent, as provided in its contract for Financial Assistance with the Commonwealth, the third subsidy payment in the amount of \$13,836.38, which together with the contribution reduction of \$4,413.62 represents 2 1/2% of the total Development Cost. The Operating Surplus for the first fiscal year of operations, after full subsidy payment by the Commonwealth, totalled \$3,175.57 and was transferred to the Operating Reserve. The Operating Surplus for the second fiscal year of operations, after maximum Commonwealth subsidy being applied totalled \$6,713.62. Of this amount \$2,300.00 was transferred to the Operating Reserve and \$4,413.62 was used to reduce the third year's subsidy to \$13,836.38.

The subsidies paid to the Authority by the Commonwealth with the corresponding unit rental savings to each tenant follow:

Year	Subsidy Paid	Saving Per Tenant Per Month
1952	\$18,250 00	\$24 93
1953	18,250 00	24 93
1954	13,836 38	18 90

PEABODY HOUSING AUTHORITY

REPORT NO. 55-H-30

Project 200-1 - Permanent Financing: The surplus from operations, after taking into consideration the Commonwealth Contribution of \$16,495.34 and the Contribution Reduction from Prior Surplus of \$1,554.66, totalled \$6,506.82 for the third fiscal year under Permanent Financing which ended on December 31, 1953. This surplus was reserved for the purpose of subsidy reduction for the fiscal year ending December 31, 1954. The surplus for this fourth fiscal year, after applying the Commonwealth Contribution of \$11,543.18 and the subsidy reduction of \$6,506.82, totalled \$5,185.41.

General - Annual Verification of Tenants' Incomes: Under the provision of Chapter 200 of the Acts of 1948, as amended, tenants' rentals are based on their respective incomes and/or family status. This income is originally verified prior to occupancy. Thereafter annual verification should be arranged in accordance with administrative orders of the Chairman of the State Housing Board, in order that there be compliance with the provisions of this statute with respect to the continued eligibility of tenants and to ascertain that they are paying proper rentals.

In this connection it was noted that there have been no rental adjustments based on the annual verification of tenants' incomes since the projects were originally occupied. In the case of Project 200-1 initial occupancy was in October 1950.

The Executive Director stated that such annual verifications have been made, but that no further action has been taken to adjust the rentals accordingly.

General - Sale of Electrical Equipment: During this audit period the Authority sold to the Electric Light Department of the City of Peabody all equipment necessary for the transmission of electrical current to both projects owned by the Authority. The selling price was determined by negotiation between the Authority and the Electric Light Department with the approval of the State Housing Board. The total selling price was \$8,497.55.

General - Payments in Lieu of Taxes: During the period under audit the Authority made payments in lieu of taxes to the City of Peabody in the amount of \$8,041.94 as follows:

Project 200-1	\$6,457 94
Project 200-2	<u>1,584 00</u>
	<u>\$8,041 94</u>

CLINTON HOUSING AUTHORITY

REPORT NO. 55-H-31

Annual Contribution: Attention is directed to the fact that the Commonwealth makes an annual contribution of not more than 2 1/2% of the total cost of the project. This contribution for the fourth year under Permanent Financing was \$7,975.00, the maximum amount allowed, and was received by the fiscal agent, The National Shawmut Bank of Boston, on or about June 15, 1954.

In this connection, it was noted that the surplus for the third year under Permanent Financing was \$2,473.07 and was transferred in its entirety to the Operating Reserve account. No transfer was made to the Reduction of the Annual Contribution account.

Management Program: There was no management program available for auditing purposes. It was recommended that this Authority advise the State Housing Board to this effect and obtain a new copy of this important record for its files.

Budget: The budget for the year 1954 was not available for auditing purposes. A copy of all budgets should be on file in the Authority's office at all times.

WOBURN HOUSING AUTHORITY

REPORT NO. 55-H-32

Commission on Washing Machines: It was noted that the income from this concession is based on 10% of collections. This percentage appears to be small when compared with commissions received from comparable sources in Housing Projects in other communities. In this connection attention is directed to the fact that one Authority receives as commission 50% of the actual collections. It is suggested that this contract be reviewed.

Working Capital: The Balance Sheet indicates a balance in this account of \$698.46. Inasmuch as it is inactive, it is suggested it be transferred to the Operating Reserve account.

Project 200-1 - 1954 Operations: For the fiscal year ended September 30, 1954, this project operated at a loss of \$15,304.64 before applying the Commonwealth Contribution of \$12,020.32 and \$5,879.68 which had been reserved from the prior year's operations for the purpose of reducing the annual subsidy from the Commonwealth. The State Housing Board has advised this Authority that the project surplus of \$2,595.36 resulting from these applications and the surplus adjustment of \$1,094.26, will be used to

reduce the subsidy for the fiscal year ending September 30, 1955.

Loss from Utilities Supplied to Tenants: It was noted that the Authority was supplying utilities at a loss of \$2.36 per month per apartment for the fiscal year ended September 30, 1954 as follows:

	<u>Total</u>	<u>Per Unit Month</u>
Total Utility Costs for Year	\$10,689 72	\$13 10
Less:		
Water and Sewer Charge	<u>1,496 00</u>	<u>1 83</u>
	\$9,193 72	\$11 27
Less:		
Utilities Paid by Tenants	<u>7,272 00</u>	<u>8 91</u>
	<u>\$1,921 72</u>	<u>\$2 36</u>

It is understood that the Authority will increase the charges to tenants as of March 1, 1955 as follows:

Two Bedroom	From \$8 50	To	\$11 65 Per Month
Three Bedroom	From 9 50	To	13 02 Per Month

Project 200-2 - 1954 Operations: For the fiscal year ended September 30, 1954, this project operated at a loss of \$11,580.39 before applying the Commonwealth's Contribution of \$14,925.00 and the \$1,000.00 which had been reserved from the prior year's operations for the purpose of reducing the annual subsidy from the Commonwealth. The State Housing Board has advised this Authority that the project surplus of \$4,344.61 resulting from these applications will be used to reduce the subsidy for the fiscal year ending September 30, 1955.

Loss from Utilities Supplied to Tenants: It was noted that the Authority was supplying Utilities at a loss of \$1.49 per month per apartment for the fiscal year ended September 30, 1954, as follows:

	<u>Total</u>	<u>Per Unit Month</u>
Total Utility Costs for Year	\$8,359 32	\$11 61
Less:		
Water Charge	<u>840 00</u>	<u>1 17</u>
	\$7,519 32	\$10 44
Less:		
Utilities Paid by Tenants	<u>6,444 00</u>	<u>8 95</u>
	<u>\$1,075 32</u>	<u>\$1 49</u>

It was understood that the Authority will increase the charges to tenants as of March 1, 1955 as follows:

Two Bedroom	From \$8 50	To	\$11 14 Per Month
Three Bedroom	From 9 50	To	12 45 Per Month

Change Orders: It was noted that a total of \$76,873.54 or 13.42% of the total contract price of \$573,100.00 was expended on Change Orders. The changes involved were occasioned in great part to unforeseen conditions as was indicated in a letter from the State Construction Advisor. However, these expenditures appear to be in excess of the statutory and allotment limitations established.

It was further noted that the State Construction Advisor indicated that there were three pending Change Orders totalling \$1,932.87 which will increase that total to \$78,806.41 or 13.75% of the original contract price.

Visit to Projects: While this audit was in progress a visit was made to all projects. In this connection the following was observed:

Project 200-1

1. Buildings are in need of paint.
2. Garbage Receptacles in dangerous places.
3. Areaways filled with stones.
4. Trash barrels in front of buildings facing street.
5. Tin cans and papers on project grounds.
6. Three dog houses in front of buildings facing street.
7. Side of house at 48 Creston Street cluttered with trash.
8. Mops leaning on buildings facing street.
9. Broken windows in basement doors.

Project 200-2

1. Buildings are in need of paint.
2. Mops leaning on buildings.
3. Water shut-off cap missing near Boiler Room building number H.
4. Storage building in need of repairs.
 - a. Broken windows.
 - b. Broken clapboards.
 - c. Roof leaking.
 - d. Beaver board ceiling falling down.
 - e. Needs painting.

FALL RIVER HOUSING AUTHORITY

REPORT NO. 55-H-34

Tempoary Construction Project - Termination: During the period under audit this project was entirely vacated. The remaining buildings and equipment were sold by the City of Fall River, and the balance of the funds of this project totaling \$22,786.46 was transferred to the City of Fall River.

The records pertaining to the sale of buildings and equipment were not examined in connection with this examination.

Commonwealth Contributions: During this audit period this Authority received annual Commonwealth Contributions for the three Chapter 200 Projects, as follows:

Project	For the Fiscal Year Ending	Maximum Contribution	Amount of Contribution Received
200-1	Sept. 30, 1954	\$35,600 00	\$33,486 35
200-2	Sept. 30, 1954	48,400 00	14,715 30
200-3	Dec. 31, 1954	29,000 00	29,000 00

Project 200-1 - Final Payment to the Contractor: Legal difficulties between the general contractor and one of the subcontractors were settled during the period under audit and final payment in the amount of \$17,104.98 was subsequently made to the general contractor.

Projects 200-1 and 200-3 - Deficit: It was noted that the State Housing Board authorized the elimination of the operating deficits of the two projects, as follows:

Project	For the Fiscal Year Ending	Amount of Deficit	Transfer from Operating Reserve
200-1	Sept. 30, 1954	\$4,271 94	\$4,271 94
200-3	Dec. 31, 1954	2,149 12	2,149 12

Project 200-2 - Disposition of Surplus: It was noted that the State Housing Board authorized the disposition of the operating surplus of Project 200-2, as follows:

For the Fiscal Year Ending	Amount of Surplus	Transfer to Reduction of Commonwealth Contribution
Sept. 30, 1954	\$23,169 65	\$23,169 65

Tenants' Accounts Receivable - Comparison of Balances: A comparison of the outstanding balances of the tenants' accounts receivable as of the previous audit date and the current audit date for the three projects, follows:

	Project 200-1	Project 200-2	Project 200-3
Balance November 30, 1953	\$2,094 74	\$4,289 13	\$3,048 25
Balance December 31, 1954	<u>1,741 15</u>	<u>3,186 69</u>	<u>2,191 67</u>
	<u>\$353 59</u>	<u>\$1,102 44</u>	<u>\$856 58</u>

In connection with the above, it was noted that the decrease in outstanding tenants' accounts receivable resulted principally from charge-offs of delinquent accounts, as follows:

Project 200-1	Project 200-2	Project 200-3
<u>\$942 43</u>	<u>\$1,564 26</u>	<u>\$1,016 63</u>

Projects 200-1 and 200-3 - Results of Operations: For the period under audit the records of Project 200-1 indicated a deficit of \$7,082.16, which is approximately \$4.16 per unit per month, and the records of Project 200-3 indicated a deficit of \$2,655.77 or approximately \$2.04 per unit per month.

It is noted that these deficits resulted from a decrease in rental income and an increase in operating costs. In this connection it is mentioned that the decrease in rental income resulted in an average rent per unit month lower than that established by the State Housing Board as the minimum average to meet the expenses of the project. The expenses showing decided increases included management expense, costs of repairs, maintenance and replacements, and collection losses.

WESTBOROUGH HOUSING AUTHORITY

REPORT NO. 55-H-35

Commonwealth Contribution: The Commonwealth may make an annual contribution of not more than 2 1/2% of the total net development costs. In this connection, it was noted that this contribution for the fifth year under Permanent Financing will probably be \$2,043.00, computed as follows:

2 1/2% of Costs	\$3,800 00
Less:	
Surplus to be transferred to Reduction Reserve	<u>1,757 00</u>
	<u>\$2,043 00</u>

This amount will be paid to the fiscal agent, the National Shawmut Bank of Boston in February 1955.

In this connection, it was noted that the Authority's financial records do not, as yet, reflect the transfer of surplus to the Reduction of Annual Contribution account. However, a resolution in the "Minutes of the Meetings" requesting \$2,043.00 from the Commonwealth indicates the intention of the Authority to transfer this surplus to the Reduction Reserve account.

Operating Reserve: At the beginning of the 1954 fiscal year, this account already had its maximum balance. Subsequently, it was reduced by certain charges. A further provision for Operating Reserve was then made in the amount of \$336.00 during the last two quarters of the 1954 fiscal year. It was noted, however, that no provision was made in the budget for this replenishment. It was noted, however, that such provision was made in the 1955 fiscal year's budget.

DALTON HOUSING AUTHORITY

REPORT NO. 55-H-36

Project 200-1

Debt Service Payments: This Authority pays into its Debt Service Fund through its fiscal agent each year from rental income an amount, which together with amounts received from other sources, will equal that fiscal year's total debt requirements. The

Debt Service requirements for the fiscal year ending September 30, 1955, payable August 1, 1955 are computed as follows:

Bonds and Interest Payable	\$7,150 00
Less:	
Commonwealth Contribution	<u>4,850 00</u>
Project Requirement	<u>\$2,300 00</u>

Operating Reserve: The maximum operating reserve for this project is established at \$4,800.00. It was noted, however, that the amount reserved as of December 31, 1954 was \$6,320.68, and includes a transfer of the entire operating surplus for the fourth fiscal year of operations in the amount of \$1,738.23. It is understood that the reserve is being increased to replace defective hot water heaters.

Project 200-2

Debt Service Payments: This Authority pays into its Debt Service Fund through its fiscal agent each year from rental income an amount which together with amounts received from other sources will equal that fiscal year's total debt requirements. For the third fiscal year this amount of \$1,802.31 will be paid in two installments; on March 1, 1955, \$846.06, and on September 1, 1955, \$956.25. This amount was computed as follows:

Bonds and Interest Due	\$5,875 00
Less:	
Commonwealth Contribution	\$3,431 79
Contribution Reduction	543 21
1/40 Premium	62 69
Income on Investment	<u>35 00</u>
Total Project Requirement	<u>\$1,802 31</u>

MALDEN HOUSING AUTHORITY

REPORT NO. 55-H-37

Temporary Construction Projects - Repairs, Maintenance and Replacements: It was noted that this Authority expended \$13,306.66 for repairs, maintenance and replacements on these temporary units during the 1954 calendar year, and represents an increase of \$5,611.14 over that which was expended for comparable purposes during the 1953 calendar year.

In this connection it was noted that the major portion of these expenditures in 1954 pertained to repairing porches and painting the units. In order to defray the cost of these expenses to keep this property in good condition, the Authority voted to increase the rents \$2.00 a month effective August 1, 1954.

The expense of the maintenance, etc., of these units will continue to increase with the passage of time. It further appears that they will soon outlive their usefulness because increased expenses will probably have to be met by a further corresponding increase in rentals which might prove to be excessive when compared with the type of accommodations available in these units.

Project 200-1 - Permanent Financing: It was noted that the surplus from operations, after taking into consideration the Commonwealth's Contribution of \$1,674.70 and the Contribution Reduction from Prior Surplus of \$28,725.30, totalled \$27,336.47 for the fourth fiscal year under Permanent Financing which ended on December 31, 1954.

Project 200-2 - Permanent Financing: It was also noted that the surplus from operations of this project after taking into consideration the Commonwealth's Contribution of \$16,140.83 and the Contribution Reduction from Prior Surplus of \$5,759.17, totalled \$14,346.04 for the third fiscal year under Permanent Financing which ended on December 31, 1954.

General - Payment in Lieu of Taxes: During the period under audit the Authority remitted to the City of Malden \$7,543.83 as a payment in lieu of taxes for the two State-aided projects as follows:

Project 200-1	\$4,253 42
Project 200-2	<u>3,290 41</u>
	<u>\$7,543 83</u>

Housing for the Elderly: On September 1, 1954 the State Housing Board granted this Authority a tentative allotment of forty-five units of housing for the elderly. An architect has been selected and a site has been obtained. Construction of these units will begin when the Chairman of the State Housing Board allocates the necessary funds.

FITCHBURG HOUSING AUTHORITY

REPORT NO. 55-H-38

Annual Subsidy: The Commonwealth provides an annual subsidy not to exceed 2 1/2% of the development costs of the project.

A subsidy payment of \$19,438.46 for the fourth year under Permanent Financing was received on or about February 15, 1954 and was computed as follows:

2 1/2% of Development Costs	\$40,375 00
Less:	
Transfer of Prior Year's Surplus to Reduction Reserve	20,936 54
Fourth Year's Subsidy	<u>\$19,438 46</u>

It is understood that the subsidy payment for the fifth year under Permanent Financing will total \$35,105.58, established after the transfer of the fourth year's operating surplus of \$5,269.42 to the Reduction Reserve account. This payment will be made to the fiscal agent during February, 1955.

Operating Reserve: The budget for the 1954 fiscal year provided for an increase to the Operating Reserve account of \$2,500.00. It was noted, however, that the actual provision for this Operating Reserve during the 1954 year amounted to \$8,160.00.

HAVERHILL HOUSING AUTHORITY

REPORT NO. 55-H-39

Project 200-1 - Operations: It was noted that in the past three years of operations there has been only one instance where the Commonwealth's Contribution has been reduced, in 1954 when \$52.09 was deducted.

It was noted in this connection that the charges for utilities, exclusive of water, were substantially in excess of amounts charged to the respective tenants. As a result the project assumed additional expenses which, of course, accordingly reduced its profits. For the fiscal year ending September 30, 1954, these costs and income follow:

Total Utilities (Exclusive of Water)	Charged to Tenants	Per Unit Charges Per Month	
		To Tenants	Assumed by Authority
\$7,143.15	\$5,799.60	\$13.42	\$3.11

It was explained that there had been an engineering error in the establishment of the heating systems. It is also understood that there is a possibility that the two heating systems involved may be sold to the local Utility Company, who will thereafter make charges directly to the respective tenants.

It is suggested, however, that in the event that the systems are not disposed of there should be a revision of charges to the tenants.

Project 200-2 - Operations: This project has been in the Permanent Financing status since July 1, 1952. The results of its operations showed surpluses in these two fiscal years, as follows:

Fiscal Year Ending June 30, 1953	\$2,428 61
Fiscal Year Ending June 30, 1954	1,747 60

Upon authority of the State Housing Board these amounts were credited to the Operating Reserve account.

The Operating Reserve account should reach its maximum of \$300.00 per unit before the end of 1955, or in a period of approximately three and one-half years, which is, of course, less than the five-year period prescribed in the Manual of Accounts issued by the State Housing Board. Had the operating surpluses transferred to the Reserve Account been excluded, the maximum would have been reached approximately within the five-

year period, and it would appear that the profits indicated should have been used to reduce the Commonwealth's Contributions.

Project 200-2 - Administration Fund: As of the date of audit the cash balance of this Fund was \$37,307.99. In this connection the previous audit report suggested that a portion of this balance be placed in investments. While this audit was in progress \$9,000.00 was placed in savings accounts in local banks as investments. It is urged that further funds be invested where they may receive interest.

It was further noted that the general ledger reflected an Administration Fund and a Security Deposit Fund although the cash for both funds had been cleared through the Administration Fund. It is therefore suggested these two accounts be combined to reflect the correct balance of the Administration Fund.

NAHANT HOUSING AUTHORITY

REPORT NO. 55-H-41

Permanent Financing: The operations of the Authority for the fourth fiscal year under Permanent Financing reflected a profit of \$1,758.32, after taking into consideration the Commonwealth Contribution of \$1,911.15 and the Contribution Reduction of \$1,788.85 which had been reserved from the surplus of the third fiscal year. On instructions of the State Housing Board, this amount was reserved as follows:

Contribution Reduction Reserve	\$1,000 00
Operating Reserve	<u>758 32</u>
	<u>\$1,758 32</u>

Attention is directed to the fact that the balance of the Operating Reserve after this transfer totaled \$4,958.32 and was \$758.32 in excess of the maximum amount of \$300.00 per unit, as originally prescribed by the State Housing Board. On this basis it would appear that the entire surplus should have been applied to the subsidy reduction.

Payment in Lieu of Taxes: During the period under audit, the Authority remitted \$684.39 to the Town of Nahant as a payment in lieu of taxes.

NORTHBRIDGE HOUSING AUTHORITY

REPORT NO. 55-H-42

Permanent Financing: The Commonwealth subsidy contribution for the fourth year under Permanent Financing was \$5,500.00, the maximum amount permissible, and was paid to the Worcester County Trust Company, the fiscal agent for this Authority on or about September 15, 1954.

Attention is directed to the fact that the operating surplus of the third year under Permanent Financing was transferred to the Operating Reserve account and no consideration was given to the Contribution Reduction account.

Sale of Electric Distributing System: It was noted that the Electric Distributing System was sold to the Worcester County Electric Company for \$1,300.00.

In this connection it was noted that the original cost to the Authority for this system was \$1,800.00.

The funds received were remitted to the Treasurer of the Commonwealth for deposit in the Housing Authority Bonds Sinking Fund, as provided in Section 26NN of Chapter 121 of the General Laws.

The sale of utilities is authorized under the provisions of Chapter 116 of the Acts of 1954.

HULL HOUSING AUTHORITY

REPORT NO. 55-H-43

Permanent Financing: The records of this project reflected an operating surplus of \$2,033.67 after taking into consideration the Commonwealth's Contribution of \$6,026.42 and the Contribution Reduction of \$2,098.58 for the third fiscal year under Permanent Financing. This surplus was transferred to the Operation Reserve.

This Authority has also received a subsidy of \$8,125.00 for its third fiscal year under Permanent Financing, which represents the maximum subsidy of 2 1/2% of the Certified Development Cost.

WATERTOWN HOUSING AUTHORITY

REPORT NO. 55-H-45

Chapter 372 - Operating Budget not Submitted as Required: In accordance with the provisions of Section 7 of Chapter 372 of the Acts of 1946, no expenditure is to be made by any city or town or by any Housing Authority Board or officer acting as agent for such city or town in carrying out the provisions of Sections 4 and 6 of that Chapter of more than \$1,000.00, in any one year, without the prior approval of the State Housing Board. To eliminate the necessity for processing individual requests for expenditures exceeding this amount, the State Housing Board approves annual budgets for the operation of projects which apparently constitutes approval for making expenditures to the limit of such budgets.

In this connection attention is directed to the fact that, as of the date of audit, this Authority had failed to submit operating budgets for the 1952, 1953, 1954 and 1955 calendar years.

Permanent Financing - Project 200-1: The Initial Operating Period of this project ended on December 31, 1954, with the issue of notes under Permanent Financing. In this connection it was noted that the note issue, at an interest rate of 6%, with a premium of \$93,500.83, was in the aggregate amount of \$1,537,000.00. This amount represented the total development costs less the operating surplus of \$221,511.82 earned during that period.

It was further noted that the books for the Initial Operating Period were closed as of December 31, 1954, and accounts under Permanent Financing were opened as of January 1, 1955.

This project will receive a subsidy of 2 1/2% of the certified development costs as its first annual contribution from the Commonwealth.

Permanent Financing - Project 200-2: The Initial Operating Period of this project ended on December 31, 1954 with the issue of notes under Permanent Financing. In this connection it was noted that the note issue, at an interest rate of 6%, with a premium of \$59,251.67 was in the aggregate amount of \$974,000.00. This amount represented the total development cost less the operating surplus of \$29,685.26 earned during that period.

It was further noted that the books for the Initial Operating Period were closed as of December 31, 1954 and accounts under Permanent Financing were opened as of January 1, 1955.

This project will receive a subsidy of 2 1/2% of the certified development costs as its first annual contribution from the Commonwealth.

Discounts not Realized: In certain isolated instances it was noted that discounts had not been realized because bills had not been approved for payment by the Executive Director of the Authority in sufficient time to take advantage of the payment terms, and also because such items were not considered when payment was made.

Project 200-2 - Final Payment to Contractor: It was noted that there are still two suits pending against the Authority in respective amounts involving \$3,037.89 and \$3,250.47, and such amounts have been reserved in the accounts. It is understood that these two cases will be tried in the near future.

LEOMINSTER HOUSING AUTHORITY

REPORT NO. 55-H-46

Commonwealth Contribution: The previous audit report indicated that the Commonwealth's subsidy contribution for the third year under Permanent Financing would be \$16,070.34, and was based on the fact that the 1953 surplus of \$1,504.66 had been transferred to the Reduction Reserve account. It was noted, however, that the surplus was transferred to the Operating Reserve account, and the Authority actually received from the Commonwealth the maximum contribution allowable, \$17,575.00, which was paid to the National Shawmut Bank of Boston, the fiscal agent of this Authority, on or about June 15, 1954.

The contribution for the fourth year under Permanent Financing will probably be \$17,575.00, the maximum amount allowable. In this year it was also noted that the 1954 surplus of \$759.59 has been transferred to the Operating Reserve account, and no consideration was given to the Reduction Reserve account.

This contribution will be paid to the National Shawmut Bank of Boston, on or about June 15, 1955.

NORTH ADAMS HOUSING AUTHORITY

REPORT NO. 55-H-49

Debt Service Payments: This Authority pays into its Debt Service Fund through its fiscal agent each year from rental income an amount, which together with amounts received from other sources, will equal that fiscal year's total debt requirements. These requirements for the fiscal year 1955 were computed as follows:

Bonds Maturing and Interest		
Payable June 1, 1955		\$34,800 00
Less:		
State Contribution	\$22,725 00	
Interest on Investment	262 50	
1/40 of Premium	438 57	23,426 07
Project Requirement		<u>\$11,373 93</u>

Project Surplus: It was noted that the project surplus from the second fiscal year of operations in the amount of \$2,954.26 was transferred to the Operating Reserve account.

Subsidy Payments: This Authority has received for its second fiscal year the maximum subsidy of \$22,725.00. It was noted that the net income for this project had decreased because of unusual expenses for hot water heaters, inside painting and utilities.

Operating Reserve: The maximum operating reserve to be established over a five-year period for this project was set at \$19,500.00, and as of the date of audit the balance actually reserved was \$20,966.34. It is understood that this reserve is being developed to replace faulty hot water heaters and correct painting defects.

Surplus Cash: It was noted that the cash balance in the Administration Fund has been steadily increasing since Permanent Financing became effective, and it is recommended that the surplus cash which will not be used in the normal course of operations be invested. It is further suggested that reserve accounts to care for contingencies should be invested in their entirety. Any income received from such sources will decrease the cost of operations accordingly.

BROOKLINE HOUSING AUTHORITY

REPORT NO. 55-H-50

Commonwealth Contribution: The surplus from operations of this project for the fiscal year ended September 30, 1954, totalled \$23,091.92 after taking into consideration the Commonwealth's Contribution of \$55,046.05 and the Contribution Reduction from Prior Surplus of \$28,603.95. This surplus of \$23,091.92 will be used to reduce the Commonwealth Contribution for the fiscal year ending September 30, 1955.

Utility Charges: The previous audit report commented that the charges for utilities to the tenants appeared to be in excess of actual costs to the Authority. In this connection it was noted that effective January 1, 1955 the Authority reduced the heating charges to tenants as follows:

	Old Rate	New Rate
One bedroom unit	\$ 6 00	\$4 25
Two bedroom unit	8 25	5 85
Three bedroom unit	10 00	7 10

Payment in Lieu of Taxes: During the period under audit the Authority remitted \$10,476.00 to the Town of Brookline as a payment in lieu of taxes for the year 1954.

WELLESLEY HOUSING AUTHORITY

REPORT NO. 55-H-51

Demolition of Buildings - Temporary Construction: This project comprised at the close of the prior audit, 16 buildings consisting of 55 units. Bids were obtained from wrecking companies for their demolition and a single award was made for all 16 buildings for which the Authority would receive \$200.00 per building. During this audit period 13 buildings comprising 47 units were demolished leaving 3 buildings with 8 units still standing. It was further noted that the contractor has already paid for two of the

three buildings which still remain. It is anticipated the buildings still occupied will be vacated shortly and that the entire demolition will be completed before July 1, 1955.

Operating Reserve - Project 200-1: After certain adjustments suggested in connection with this audit have been effected the balance in this Reserve as of February 28, 1955 was \$28,198.75, which was in excess of \$27,000.00 representing the prescribed \$300.00 per unit limitation as set forth in the Manual of Accounts of the State Housing Board. On analysis it was noted that this excess credit was due to the fact that the surplus for the fiscal year ending June 30, 1954 of \$9,081.39 had been credited to this account and also the expense items representing Provision for Operating Reserve was being added to the reserve to the extent of \$1,080.00 each quarter. It was noted that this apparent excessive reserve has been approved by the State Housing Board and its purpose is to take care of an unusually large expenditure, which it is anticipated will amount to approximately \$50,000.00 and will involve a complete revision of the boiler system which is presently inadequate.

It is also planned to credit subsequent surpluses to this reserve so that a total credit of \$50,000.00 will have been reached by the time the expenditure becomes an actuality.

Chapter 200 - Project 200-2 - Development: It was noted that approval was received under date of April 12, 1954 from the State Housing Board for the construction of 12 units to be known as Chapter 200 - Project 200-2.

The contract for Financial Assistance was dated May 6, 1954 in the amount of \$176,000.00 and First Series Notes totalling \$176,000.00 dated May 25, 1954, were issued at the rate of 6% to fall due July 26, 1955. A premium of \$11,800.00 was received on these notes resulting in a net interest rate of .267%.

Preliminary work such as plans, blueprinting, etc., by the architect was done prior to the requests for bids from numerous contractors for construction. Construction bids were accordingly received but they appeared so excessively high, that it was decided to reject all bids at a meeting of the Authority here on January 4, 1955. Subsequently because of the reduced number of applicants for apartments it was decided to abandon the project, by unanimous vote of the Board at its meeting held on February 5, 1955.

The Development Costs, to the date of audit, totalled \$5,343.27 and consisted mainly of architect's fees and blueprinting. It is understood that these costs will be further increased by approximately \$4,500.00 for additional architectural fees. In this connection bills have already been submitted to the State Housing Board for approval in the amount of \$4,777.65 but was questioned and will be revised to \$4,475.00.

These additional charges will be reduced by approximately \$525.00, as the result of income being received from United States Treasury Bills purchased of \$161,000.00 less the net carrying charges of the Note issued.

NANTUCKET HOUSING AUTHORITY

REPORT NO. 55-H-53

Subsidy Payments: It was noted that the maximum of \$8,047.52 representing 10% of the total development costs of \$80,475.24 has already been paid to the Town of Nantucket by the Commonwealth as follows:

March	18, 1952	\$1,609 50
March	18, 1952	1,609 50
September	2, 1952	1,609 50
September	14, 1953	1,609 51
October	11, 1954	1,609 51
		<u>\$8,047 52</u>

Transfer of Profit: It was noted that the operating profit of \$2,437.22 for the calendar year 1953 was turned over to the Town of Nantucket during 1954. It was further noted that the operations for the year 1954 and the first two months of the 1955 calendar year indicated a total profit of \$3,077.79.

While this audit was in progress part of that profit for the calendar year of 1954, in the amount of \$2,666.53 was turned over to the Town of Nantucket by this Authority.

UXBRIDGE HOUSING AUTHORITY

REPORT NO. 55-H-55

Subsidy Payments: The Commonwealth may make an annual subsidy of not more than 2 1/2% of the total development cost. For the fifth year under Permanent Financing this subsidy payment will total \$6,375.00, the maximum permitted.

It is understood that this amount will be paid to the fiscal agent of this Authority, the Second National Bank of Boston, on or about June 15, 1955.

Surplus: It was noted that the surplus for the fourth year under Permanent Financing in the amount of \$308.36 was transferred to the Operating Reserve Account.

MANSFIELD HOUSING AUTHORITY

REPORT NO. 55-H-56

Commonwealth Contribution: It was noted that the operating surplus totaling \$597.73 for the fiscal year ending September 30, 1954 was transferred to the Operating Reserve.

It was also noted that the State Housing Board has notified the Authority that its Annual Subsidy Contribution for the third fiscal year under Permanent Financing ending September 30, 1955 will be \$3,550.00.

Operating Reserve: It was noted that as of February 28, 1955 the balance in the Operating Reserve was \$4,630.61, despite the fact, that a maximum of only \$3,000.00 is allowed under the Management Program.

It is suggested that the Authority request instructions from the State Housing Board as to the proper handling of this excess accumulation.

Housing for the Elderly: In this connection it was noted that at the annual town business meeting held on February 28, 1955, the voters of the Town of Mansfield passed the following vote:

Article 11. Voted that the Mansfield Housing Authority be empowered to erect a housing project for elderly persons under the provisions of Section 26NN of Chapter 121 of the General Laws.

WALPOLE HOUSING AUTHORITY

REPORT NO. 55-H-58

Operations under Permanent Financing: The books of the Authority, after taking into consideration the Commonwealth's Contribution of \$11,536.44, and the transfer of \$813.56 from the Contribution Reduction Reserve, indicated a surplus of \$4,868.82 for the third fiscal year under Permanent Financing which ended on December 31, 1953.

This surplus was disposed of by a transfer to the Operating Reserve.

It was further noted that there was received a subsidy of \$12,350.00 for the fourth fiscal year of operations, which represents the maximum subsidy of 2 1/2% of the certified development cost.

There was an operating surplus of \$4,039.65 for the fourth fiscal year under Permanent Financing which ended on December 31, 1954, that was disposed of in the following manner:

Transfer to Operating Reserve	\$2,039 65
Transfer to Contribution Reserve	<u>2,000 00</u>
	<u>\$4,039 65</u>

Condition of Project: The project was visited in connection with this audit and appears to be in need of a certain amount of landscaping to beautify it and also to protect the occupants against injury. The exterior is also in need of painting.

It was also noted that while this audit was in progress breaker boxes that had proven faulty, to some degree, were replaced at the request of the Fire Chief and Wire Inspector.

MATTAPOISETT HOUSING AUTHORITY

REPORT NO. 55-H-59

Surplus: It was noted that the operating surplus of this project totaled \$505.98 for its fourth fiscal year ended September 30, 1954. In this connection the State Housing Board directed the Authority to reserve this amount for the purpose of reducing the Commonwealth's Contribution for the 1955 year.

During this audit period a subsidy contribution totalling \$2,494.02 was received for the fifth fiscal year of operation which will end September 30, 1955.

MILLBURY HOUSING AUTHORITY

REPORT NO. 55-H-60

Financing: Attention is directed to the fact that this project is still in Temporary Financing. There are still outstanding the Seventh Series notes in the amount of \$315,000.00, which were purchased by White, Weld & Co. and Associates of Boston at an interest rate of 6% with a premium of \$14,111.52, making a net rate of .1569%.

Filter Bed: It was noted that the filter bed owned by this Authority which was completed in the early part of 1954, worked well for a couple of months and then began to leak from the sides and end. Thereafter a firm of sanitation engineers was engaged to examine and test it. After extensive tests, there was submitted a report which recommended two proposed changes, e.g.: the septic tank should be remodeled to increase its efficiency and the filter bed should be rebuilt in its entirety.

No decision has yet been reached in this regard but it is expected that the Authority will finally be forced to rebuild the filter bed.

MEDFORD HOUSING AUTHORITY

REPORT NO. 55-H-61

Revolving Fund: It was noted that the basis used for prorating expenses applicable to the various projects was as follows:

	To Feb. 28, 1954	Mar. 1, 1954 to Dec. 31, 1954	From Jan. 1, 1955
Temporary Construction Project	33 1/3%	10%	-
Chapter 200-1	33 1/3%	45%	50%
Federal 15-1	33 1/3%	45%	50%

It will be noted from the foregoing that during the audit period no charges were made to Project 200-2 which had been abandoned and that the charges to the Temporary Project Title V were decreased as of March 1, 1954 because the number of units occupied had been greatly reduced and were being vacated without replacement.

Revolving Fund - Accounts Receivable: The following accounts receivable as of March 31, 1955 are shown as outstanding:

Temporary Construction - Title V	\$ 5 10
Chapter 200-1 - Administration	2,124 90
Federal 15 - 1	<u>1,633 66</u>
Total from Projects	\$3,763 66
Hospital Plan - Employees	<u>92 25</u>
Total	<u>\$3,855 91</u>

In this connection it was noted that the first three items should actually have been closed, as the amounts had been charged to the accounts indicated during the month of March and therefore should have been reflected as receipts to the Revolving Fund.

The last amount represented payments to the Hospital Plan for the member of the Authority Board, which were deducted from the subsequent settlement made of Board Members fees.

The situations existed because the checks to pay them had been drawn as of March 31, 1955, but were not signed as they were being held awaiting the next board meeting.

Chapter 200-1 - Tenants' Accounts Receivable: It was noted that there were outstanding rent balances due as of March 31, 1955 of \$911.16 which included \$885.84 due from tenants who had vacated or had been evicted from the project. These accounts were in the hands of an attorney for collection who, however, has had no apparent success in collecting them. It is therefore suggested the older accounts be written off after the necessary approval has been obtained.

The analysis of the move-out and evicted accounts together with their aging follows:

	7 - 12 months	Over 1 year	Over 2 years	Total
Rent	\$ 19 08	\$ 83 56	\$109 59	\$212 23
Legal and Other Charges	140 44	399 94	133 23	673 61
	<u>\$159 52</u>	<u>\$483 50</u>	<u>\$242 82</u>	<u>\$885 84</u>

In connection with the foregoing it will be noted that the amount due from tenants was mainly for legal charges and only a relatively small part was for actual rents. This condition stems from a rigid policy of collection. For purposes of information the routines exercised by the Authority follow:

"If the rent, plus any and all proper charges to the Tenants' account, is not received in full and in advance at the Central Office of the Authority by no later than 4:30 P. M. on the fifth calendar day of the month, the account shall be considered delinquent, so recorded for credit purposes, and shall be referred to the Attorney for the Authority on the following business day for his action to collect the full amount due or to repossess the leased apartment by eviction of the delinquent Tenant."

The above was part of a letter released to all tenants as of September 15, 1954 and a copy is given to all tenants taking occupancy thereafter.

In cases where the 1st and 2nd of the month or the 4th and 5th should fall on weekends only three calendar days are allowed in which rents must be paid without assuming legal charges. The usual charge for such delinquent accounts is \$7.80 (\$5.00 Attorney fee and \$2.80 Constable fee.)

In cases where there are acceptable reasons for delay of payment they are reviewed and delay allowed without going into the hands of the Attorney.

Operating Reserve - Project 200-1: Attention is directed to the fact that the Operating Reserve has a balance as of March 31, 1955 of \$47,541.81 which appears to be in excess of the amount prescribed by the Manual of Accounts, of the State Housing Board which directs that the maximum should be \$300.00 per unit, or in the instance of this project \$45,000.00.

It was further noted that the balance of this reserve account will be increased by \$600.00 a month less any authorized charges as the budget for the 1956 year includes the continuation of the present monthly charge of \$4.00 per unit.

It was explained that this seeming excessive reserve as well as the continuation of the charges thereto was as the result of advice from the State Housing Board which directed that certain Administration expenses which had been charged to the Chapter 200-2 Project, and which has been abandoned, be assumed by this project. These expenses were as follows:

Pay Roll - Executive	\$12,700 76
Office Rent	517 50
Furniture and Fixtures	73 95
Office Expense	545 15
Employees Retirement	62 79
Telephone	340 99
	<u>\$14,241 14</u>

Excess Funds on Hand: It was noted that the cash balance of the Administration Fund as of March 31, 1955 was \$76,418.04 which was much in excess of funds requested for current expenses. The matter of investing the greater portion of it in United States Government Securities was discussed with the Executive Director who thereupon contacted the State Housing Board.

In this connection it was understood that he was advised that after the final amounts for the fiscal year ended March 31, 1955 were established, he would be advised of suggested amounts and types of securities.

Chapter 200-2 - Development - Cash Position: The balance of the Development Account as of March 31, 1955 was \$45,847.11. As this project had been abandoned and there was therefore no apparent need for these funds it was suggested they be invested. In conformance with this suggestion it was noted that United States Treasury Bills due

July 7, 1955 were purchased.

BARNSTABLE HOUSING AUTHORITY

REPORT NO. 55-H-63

Local Fund: Attention is directed to the fact that there had been received in 1949 from the Town of Barnstable \$1,306.00 for preliminary expenses of the Authority. As of the date of audit the balance in this fund was \$373.32. There were no transactions in this fund during the audit period.

Project 200-1 - Payment in Lieu of Taxes: It was noted that the Authority had paid \$2,880.00 to the Town of Barnstable for payments in lieu of taxes during the period under audit. This amount, however, included a duplicate payment of \$885.78 for the calendar year 1953. The Authority has advised the Town of Barnstable of this overpayment and correspondence on file indicates that the Authority intends to reduce the payment in lieu of taxes for the 1955 calendar year by this amount.

Project 200-1 - Operating Reserve: As of March 31, 1955 the balance in the Operating Reserve amounted to \$13,812.68 despite the fact that a maximum of only \$12,000.00 is allowed under the Management Program.

In this connection a review of the approved budget for the fiscal year ending December 31, 1955 indicates proposed expenditures from this Reserve in the amount of \$13,150.00.

Temporary Construction Project - Final Accounting: It was learned that the final accounting of this project is being held in abeyance pending disposition of all outstanding tenants' accounts receivable.

A comparison of the balances of the outstanding tenants' accounts receivable March 31, of the past three years follows:

	<u>Total Outstanding</u>
March 31, 1955	\$2,526 97
March 31, 1954	2,722 00
March 31, 1953	2,722 00

It is suggested that possibly the greatest part of these accounts will not be collected, and therefore arrangements should be made to adjust these accounts accordingly and then proceed with the final accounting of this project.

In connection with the records it was noted that the books of this project have not been closed since December 31, 1951.

FALMOUTH HOUSING AUTHORITY

REPORT NO. 55-H-64

Commonwealth Contribution: During the audit period the Authority received \$13,675.00 as its Annual Commonwealth Subsidy Contribution for the fiscal year ended December 31, 1954.

Surplus: The operating surplus of this project totaled \$4,972.37 for the fourth fiscal year under Permanent Financing ended December 31, 1954, and in this connection the State Housing Board directed that this entire amount be reserved for the purpose of reducing the Commonwealth's Contribution for the 1955 year.

Housing for the Elderly: It was noted that the voters of the Town of Falmouth voted at their annual town meeting in February 1955 to approve the application of this Authority for an additional project for the Housing of the Elderly under authority of Chapter 667 of the Acts of 1954.

As of the date of audit preliminary proceedings on this application had been entered into.

FRANKLIN HOUSING AUTHORITY

REPORT NO. 55-H-65

Commonwealth Contribution: The Commonwealth's contribution for the fourth year was \$7,000.00, the maximum allowed, and it is anticipated that the contribution for the fifth year under Permanent Financing will be \$7,000.00, the maximum allowed.

The operating surpluses for the years 1953 and 1954, in the respective amounts of

\$2,028.13 and \$2,121.28 were each transferred to the Operating Reserve account and no consideration was apparently given to applying it to the Reduction of Annual Contribution account.

The balance in the Operating Reserve account on December 31, 1954 was \$9,304.86 which exceeds the maximum established in the Management Program by \$904.86.

PLYMOUTH HOUSING AUTHORITY

REPORT NO. 55-H-66

Operations Under Permanent Financing: The books of this Authority, after taking into consideration the Commonwealth's contribution of \$8,373.64 and the application of the prior year's surplus of \$2,801.36, indicated a surplus of \$1,941.21 for the fourth fiscal year's operations which ended on March 31, 1955.

Utilities: The cost of gas and electricity to the Authority was \$6,023.72, and the respective tenants paid only \$5,421.00. It is suggested that the rates to the tenants be reviewed so that the Authority may be reimbursed for their actual costs.

WEST SPRINGFIELD HOUSING AUTHORITY

REPORT NO. 55-H-67

Project 200-1

Debt Service Payments: This Authority pays into its Debt Service Fund each fiscal year from rental income, an amount which together with amounts received from other sources, will equal that fiscal year's total debt requirements. These requirements for the fiscal year 1955 were computed as follows:

Bonds and Interest Payable		
January 1, 1956		\$31,415 00
Less:		
Commonwealth Contribution	\$13,325 00	
Contribution Reduction Reserve	7,000 00	
1/40 Premium	363 78	
Income on Investment	227 50	20,916 28
Debt Requirement, November 1, 1955		<u>\$10,498 72</u>

Operating Reserve: Attention is directed to the fact that the maximum Operating Reserve specified in the management resolution for this project was established at \$27,000.00. This amount, however, was to be reserved from operations over a five-year period, but as of the date of audit there was a balance of \$34,653.75 in this fund. Of this total, \$26,993.57 represents transfers from the operating surpluses of prior years, which were made at the direction of the Chairman of the State Housing Board for the purpose of making necessary replacements to hot water heaters which are defective and other capital improvements.

It was noted that \$16,170.04 was charged against this Fund for capital improvements during the audit period.

Surplus Cash: The previous audit report stated in this connection, as follows:

"It was noted that the cash balance in the Administration Fund has been steadily increasing since Permanent Financing became effective, because of provisions made for the operating and debt service reserves. Although a portion of the cash surplus has been invested, it is recommended that additional investments be made so that the total investments will approximate the total of the reserves as they were originally established to care for contingencies and should not be used in the normal course of operations. The cost of operations will accordingly be reduced by the income received."

It was noted that while this audit was in progress, this Authority voted to invest \$40,000.00 additional of Administration Fund cash.

Chapter 372

Sale of Houses: This authority, on December 30, 1954, completed the sale of the 43 houses constructed under authority of Chapter 372 of the Acts of 1946, as amended. There

was realized \$309,176.00 from such sales, which was turned over to the Town of West Springfield. There was still on hand as of March 31, 1955, a surplus balance of \$5,652.27 which, after payment of remaining accounts payable, will be turned over to the Town of West Springfield.

BEDFORD HOUSING AUTHORITY

REPORT NO. 55-H-68

Chapter 200 - Project 200-1 - 1953 and 1954 Operations: For the fiscal year ended December 31, 1953 this project was operated at a loss of \$1,423.43 before applying the Commonwealth Contribution of \$3,175.00. After the application of this subsidy, the State Housing Board instructed the Authority to transfer the project surplus of \$1,751.57 to the Operating Reserve.

For the fiscal year ended December 31, 1954 this project was operated at a loss of \$1,220.34 before applying the Commonwealth Contribution of \$3,175.00 and again the State Housing Board directed the Authority to transfer the project surplus of \$1,954.66 to the Operating Reserve.

Operating Reserve: It was noted that the balance in the Operating Reserve was \$8,952.03 as of March 31, 1955, whereas the maximum reserve for this project should be only \$3,600.00. The reasons advanced for this excessive amount is that sewerage facilities will be installed at an estimated cost of \$5,000.00, the exterior painting of six houses is anticipated during this summer which it is estimated will cost \$2,500.00, and the extension of the drainage facilities will be accomplished at a cost of approximately \$1,000.00.

Payment in Lieu of Taxes: It was noted that this Authority paid to the Town of Bedford \$237.78 on February 1, 1955 in lieu of taxes for the year ended December 31, 1954, whereas the correct amount should have been \$432.00. It is recommended that this Authority reimburse the town for the difference of \$194.22.

Visit to Project: During the course of this audit a visit was made to the site of the project and it was noted that all buildings appear to be in need of exterior painting. In this connection, it was indicated that it might possibly be done during this year.

PITTSFIELD HOUSING AUTHORITY

REPORT NO. 55-H-69

Debt Service Payments: This Authority pays into its Debt Service Fund each year from rental income an amount which together with amounts received from other sources equals that fiscal year's total debt requirement. The debt requirement for the 1955 fiscal year was computed as follows:

Bonds Maturing and Interest		
Payable October 1, 1955		\$73,275 00
Less:		
Commonwealth Subsidy	\$45,146 65	
Reduction Reserve	503 35	
Amortization of Premium	719 90	
Income on Investments	472 50	46,842 40
Project Requirement		<u>\$26,432 60</u>

Commonwealth Contributions: This Authority has received to date \$91,300.00 and will receive \$45,146.65 for the 1955 fiscal year, as provided in its Contract for Financial Assistance with the Commonwealth. These subsidy payments represent the Commonwealth's participation in maintaining low rents as follows:

Year	Amount of Subsidy	Commonwealth's Share per Tenant per Month
1953	\$45,650 00	\$30 19
1954	45,650 00	30 19
1955	45,146 65	29 86

Rental Income: The management resolution adopted by the Authority and approved by the Chairman of the State Housing Board indicates that the monthly rental income of

the project should not be less than \$5,175.00 or an average rental charge of \$41.07.

It was noted that the rental income for several months during the audit period was below this minimum requirement and the operating income for the period from October 1, 1954 to March 31, 1955 showed a deficit of \$981.25. The average rent as of March 31, 1955 was \$39.05.

It is therefore recommended that the State Housing Board review the Authority's rental incomes and limits.

DEDHAM HOUSING AUTHORITY

REPORT NO. 55-H-70

Visit to Projects: The projects were visited in connection with this examination and it was noted that at Project 200-1 a hazardous situation exists because of two large trees which were uprooted by the hurricanes of 1954. It was also noted that additional blacktopping is necessary in the driveway areas, as they are not wide enough and consequently tenants and others usually drive on the grass.

Operation under Permanent Financing - 200-2: The records of the Authority, after taking into consideration the Commonwealth's Contribution of \$5,051.12 and the application of the prior year's surplus of \$2,448.88 reflect a surplus of \$1,927.57 for the third fiscal year's operation which ended on September 30, 1954.

WEBSTER HOUSING AUTHORITY

REPORT NO. 55-H-71

Commonwealth Contribution: The contribution to this Authority for the fourth year under Permanent Financing is expected to be \$6,443.66, computed as follows:

2 1/2% Development Cost	\$7,850 00
Less:	
Prior Year Surplus Transferred to Reduction Reserve	<u>1,406 34</u>
	<u>\$6,443 66</u>

The contribution will be paid to the fiscal agent of the Authority, the Second National Bank of Boston, on or about June 15, 1955.

Accounts Receivable - Tenants: It was noted that the accounts receivable outstanding from tenants as of March 31, 1955 totaled \$1,132.56 and indicated an increase over the amount outstanding at the time of the previous audit.

MARLBOROUGH HOUSING AUTHORITY

REPORT NO. 55-H-72

Demolition of Project: On the date of audit there were 3 units occupied, the remaining 29 units having been vacated will be demolished.

The delay in demolishing this project is due to the fact that the owner of the land obtained an injunction against the City of Marlborough, restraining demolition of the buildings. This case is in litigation awaiting adjudication by the courts. The situation has not changed since the previous audit.

BOSTON HOUSING AUTHORITY

REPORT NO. 55-H-73

General - Central Office Petty Cash: During the period under audit, the Authority's reimbursement to the Central Office Petty Cash Fund was \$9,985.76. In checking the vouchers it was noted:

1. Recurring items such as Authority members' expenses and monthly travel reimbursements of the Authority personnel were paid from this fund.
2. Certain payments, other than items mentioned above, were in excess of amounts ordinarily paid from petty cash.
3. Many of the vouchers were for legal fees.
4. Several vouchers were lacking approval of persons in authority.

It is suggested that larger recurring expenses be paid by check and that only smaller items be paid from this fund. It is also recommended that the petty cash vouchers be approved by responsible authorized individuals.

Because of the activity with respect to the legal fees, it is suggested that consideration be given the advisability of setting up a petty cash fund in the Legal Section.

General - Members' Expenses: It was noted that four of the five members were submitting monthly expense vouchers for mileage and parking fees and that there was no detailed description of reasons for using their personal automobiles for Authority business.

On the basis of vouchers submitted, it would also appear that daily parking fees for these members' cars are being paid by the Authority. It is suggested that the automobile expense vouchers include sufficient detail with respect to the expenses involved on Authority business.

It is also recommended that telephone expense vouchers include sufficient detail so that their purposes may be identified.

It was also noted that one member was submitting vouchers for secretarial services performed away from the central office. It would appear that if the Authority business were of such scope that secretarial services are needed, they should be conducted at the Authority's office where necessary Authority personnel would be available.

General - Purchases and Contract Awards: Paragraph (2) of the approved purchasing policy of the Boston Housing Authority reads as follows:

(2) All other purchases and contracts will be entered into only in the following manner:

(a) All purchases and contracts involving a sum of less than \$600 may be made in the open market after such inquiry as shall be deemed necessary or desirable to insure that the price to be paid is the most advantageous to the Authority.

(b) All purchases and contracts involving a sum of not less than \$600 and not more than \$1999 shall be made only after oral or telephone bids (confirmed in writing) have been obtained from at least three vendors or contractors, if as many as three are available in the City of Boston.

(c) All purchases and contracts involving a sum in excess of \$2000 shall be made only after invitations for bids

(a) have been publicly advertised or

(b) have been mailed to all vendors and contractors available in the City of Boston.

In this connection it was observed that the Authority had not followed the foregoing policy in the following three instances in which there was no evidence of bids having been requested:

1. Purchase of a duplicating machine - net cost \$798.00
2. Purchase of an automobile - net cost \$2,268.66
3. Extension of a laundry concession at the Chapter 200-3 project for three years

In connection with the second item it was noted that the authorization for the purchase from a particular vendor was approved by the members of the Authority on April 30, 1954 and the Purchasing Agent who was apparently not advised in this instance, prepared the purchase order on the basis of the vote taken by the members. The paid invoices in this connection indicated that optional equipment, accessories and extras totaling \$547.30 for the following were also purchased:

Heater and Defroster	\$ 81 70
Radio	92 50
EZE Glass	32 30
Power Brakes	49 50
White Walls	50 00
Power Lifts (4)	96 80
Service Group	73 00
Winterize	11 50
Bumper Guards	60 00
	<u>\$547 30</u>

The query is raised as to why extras were all necessary in a vehicle which was furnished only to Authority transportation. It is also unusual that it was necessary to winterize this automobile when its purchase was approved on April 30, 1954.

With respect to the laundry concession contract, the minutes of the meetings stated that this extension was approved:

"... in view of the necessity for considerable capital expenditure for new equipment."

It is difficult to understand why this Authority should be concerned with the operating problems of its concessionaires.

It is suggested that when the adopted purchasing policy of the Authority is not followed, there should be attached to the respective paid voucher or contract a complete detailed report of the reasons that the established policy was not followed.

General - Vacated Arrears: As of the date of audit, there were 429 vacated arrears involving \$26,115.07 in the State-Aided and City projects.

In this connection it was noted that the collection procedures with respect to these delinquencies has supposedly been as follows:

1. On the receipt of the tenant's folder from the project office a letter is written to the vacated tenant requesting payment.
2. Suit for judgment is brought if tenant does not answer or make arrangement for payment.
3. After judgment is obtained tenant is so notified and steps are taken to obtain payment.

The foregoing procedure has apparently not been strictly adhered to because there has been no one devoting his entire time to collections even though the present work load and the amount of money involved is obviously more than sufficient to warrant a complete collection section. The person who is apparently assigned to initiate the collection procedure has been devoting a good deal of time to the sale of Chapter 372 houses and works on collections only when time permits.

Attention is directed that in checking the folders of the vacated tenants of the Chapter 372 and the State-Aided projects, in an effort to ascertain correct addresses for verification purposes, 154 folders could not be immediately located because of improper filing or because they had been transmitted to the tenant selection section for reference purposes on prospective tenants' applications.

It was also noted that prenumbered receipts for the collections account of vacated arrears were not being used.

It is, therefore, suggested that all folders pertaining to the vacated arrears as shown on the project records be assembled in a collection section and an adequate system of collection procedure be set up on a full-time basis. The accounts should be carefully scrutinized and evaluated and the uncollectible accounts written off. Immediate contact should be made with tenants who vacate owing rent because of the importance of the time factor as regards their whereabouts. Tenants' folders should not be sent to the tenant selection section until such time as their write-off has been properly authorized. Settlements for less than the entire amount should be approved in writing by someone in authority other than the individual handling collections. Prenumbered receipts should be used for all monies collected.

General - Rental Basis: The previous audit report stated:

"According to the instructions from the State Housing Board, rents charged should be reviewed each year and adjusted in accordance with income or dependency.

"It was noted that the practice of reviewing incomes and dependencies has not been followed by this Authority and therefore changes occasioned by increased incomes have not been effected.

"While this audit was in progress, an investigation was being made by authorized personnel which would make current incomes the basis for rent charges. Furthermore, it is understood that changes will be made in some of the projects and the percentage of income applicable as a rental charge will probably be lowered. In this connection, it is anticipated that the increase of incomes will more than offset the percentage decrease, so that actually the net collections from dwelling rents will be greater."

It was observed that the proposed rental adjustments based upon the foregoing survey were never put into effect because the Chairman of the State Housing Board, in a letter dated June 30, 1954, requested their postponement as he was desirous of making a complete and thorough study of the entire rent situation. There was, however, no further correspondence on file to indicate just what kind of a study may have been made or why the postponement of the rental adjustments was never lifted. However, an entirely new survey was conducted by this Authority during the early part of 1955 and rental adjustments were actually made as of June 1, 1955.

Attention is directed to the fact that three of the State-Aided projects were operated at a deficit during the period that the rental adjustments were postponed. Since the dwelling rent incomes would have been increased as a result of the last year's survey, the deficit would have been correspondingly decreased if the Chairman of the State Housing Board had not acted as indicated.

It is also pointed out that the failure to adjust rentals annually is inequitable, in that the newer tenants are paying rent based on current incomes whereas the older tenants' rents are based on earnings as reported a previous year or years.

General - Purchases of Materials and Supplies: At present purchases of materials and supplies are based upon individual requisitions at the project level, and there appears to be no planning and budgeting of the purchases of such items over a definite period.

It is suggested that a purchasing budget be established based upon the requirements of the projects in accordance with estimates in the individual project budgets. Such budgets would furnish a guide for placing orders and provide for intelligent negotiation of purchase contracts.

Bid requests could be requested and the entire requirement for these materials which are used in large quantities could be contracted for over a definite period. More advantageous prices could be obtained on larger purchases. Simplification of purchasing procedure could also be obtained by reducing the clerical labor for purchasing, checking and accounting as the number of purchase requisitions, purchase orders, receiving reports and invoices will be proportionately decreased by bulk buying.

General - Discounts: In checking the paid invoices, it was indicated that the Authority lost discounts in many instances because the bills were paid after the discount period and several were not paid for forty or fifty days after their receipt in the Central Office.

It is recommended that discount bills be segregated on their receipt in the Central Office and be processed immediately in order to insure payment within the discount period.

Chapter 200 Projects - Inspection Expenses: As of the date of the audit, the salaries of two inspectors who were assigned to Project 200-11 and one assigned to Project 200-10 were being completely charged to the development costs of these respective projects. However, the dates when the last buildings of these two projects were accepted for occupancy by the Authority follow:

Project 200-10	February 24, 1954
Project 200-11	July 21, 1954

It is, therefore, not readily apparent why full-time construction inspectors were still necessary on March 31, 1955.

As of the date of audit, the Inspectors' Salaries and Expenses accounts for both projects and the amounts budgeted therefor were as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Budget Excess</u>
Project 200-10	\$36,000 00	\$ 59,995 97	\$23,995 97
Project 200-11	45,450 00	100,790 79	55,340 79

It was also noted that included with the costs of Project 200-11 is \$13,999.92 which was paid to an individual who was retained by the Authority as affidavit engineer and chief construction inspector. This expenditure would appear to be unusual because this Authority maintains a construction and inspection section of its own.

In view of the number of units involved in these two projects, the inspection costs appear to be prohibitive even though they have not yet been finally accepted because of unsettled claims between this Authority and the contractors.

Chapter 200 Projects - Payment in Lieu of Taxes: It was noted that the City of Boston did not receive payment in lieu of taxes for the calendar year 1954 for Projects 200-1, 200-2 and 200-5 which were operated at a deficit during their last fiscal year of operation.

The request by the Boston Housing Authority to make such payment was denied by the State Housing Board because of the current financial condition of these projects and as well as the cost of necessary corrective work required to maintain them in good physical condition.

It was also stated that until such time as the operating problems of these projects are resolved, the possibility of any such payments to the City is improbable.

In this connection attention is directed to the fact that on the basis of current operations, it appears that these projects will continue to operate at a deficit during their current respective fiscal years and that no payment in lieu of taxes will be made for the calendar year 1955.

Chapter 200 Projects - Use of Temporary Receipts: It was noted that the personnel at the project office for the Chapter 200-5, 200-7 and 200-12 projects were occasionally using temporary receipts. Such receipts were also properly used when the cash register required repairs. All collections should henceforth be handled through the cash register when received and temporary receipts should be used only when that register is not in working condition.

Chapter 372 - Property Disposition Account: As of the date of the audit the Authority had sold 247 one and two-family houses for a total sales price of \$3,610,450.00 and of this amount \$3,060,000.00 had already been remitted to the City of Boston.

In connection with the audit of these transactions the following were noted with respect to their control:

1. The options on the sale of the houses for which a deposit of \$100.00 was received were not pre-numbered.
2. Certain adjustments and entries on the copies of the settlement sheets which are the source of the accounting records were made by the person recording and depositing cash receipts. As a consequence these settlement sheets were not in complete agreement with the copy retained in the property folder.

It is suggested that the necessary steps be taken to eliminate these shortcomings in the present routines.

It was also noted that the general ledger did not show an underdeposit of \$10.00 on December 10, 1954 and it is, therefore, suggested that this transaction be properly recorded.

Chapter 200-1 - Investments: The previous audit report commented that an unusually large cash balance of \$276,063.20 was being maintained in the Administration Fund of this project and suggested that a large portion be invested if only for short periods. In this connection it was noted that no action had been taken by the Authority during the current audit period. The cash balance of this fund as of the date of audit totaled \$264,856.73.

However, it was noted that on April 6, 1955 the Authority purchased \$100,000.00 in United States Treasury Bills, of which \$50,000.00 fall due on June 30, 1955 and \$50,000.00 fall due on August 15, 1957. Because of the large average cash balance maintained in this account, there is no apparent reason why large investments should not be currently made.

Chapter 200-10 - Certificate of Completion: As of the date of audit, Part I of the Certificate of Completion had not yet been approved for this project; however, it was noted that it was approved by the Authority and the architect in May 1955 and by the State Housing Board in June 1955.

An examination of this document indicated that the general contractor is asserting claims of \$645,402.31 against the Authority and that the Authority has claimed four items of incomplete or unsatisfactory work of the contractor for which it is withholding \$5,945.00.

Chapter 200-13 - Project Abandonment: On November 22, 1954 the Authority voted to abandon this project which was in the preconstruction stage. As of the date of the audit the costs incurred, which are shown on Schedule No. XX of this report, amounted

to \$419,204.26. In addition, it is estimated that further costs for the adjustment of the architect's fee will amount to \$40,652.75. This amount has already been approved by the Boston Housing Authority and has been sent to the State Housing Board for approval. There are no other apparent liabilities of this project other than the financing costs.

In connection with this abandonment it was noted that House Bill #1636 was filed on the petition of the Chairman of the State Housing Board to provide for meeting the deficiency resulting from the abandonment and requested an appropriation of \$500,000.00 for this purpose. It was also noted that a portion of the land area of this project had been sold to be used as a school site during the period of audit to the School Department of the City of Boston for \$73,178.44.

It would seem that the Authority should attempt to dispose of the remainder of the land before the actual appropriation is made for the final liquidation. In this manner the actual amount of the deficiency exclusive of possible minor interest charges can be determined.

NEWBURYPORT HOUSING AUTHORITY

REPORT NO. 55-H-74

Sale of Electric System: This Authority's Electric System, comprising of wires, poles, and other services to the dwelling units, was sold to the Haverhill Electric Company with the approval of the State Housing Board. This utility company will take over the maintenance of this equipment and will charge the occupants for electric service on a direct basis.

Painting: The project was visited and in that connection it was noted that the paint on a few of the buildings is peeling very badly. It is understood that these buildings have been painted within a short period.

NORTHAMPTON HOUSING AUTHORITY

REPORT NO. 55-H-75

Veterans' Temporary Project - Surplus: It was noted that this project was closed on July 1954 and the buildings remaining were turned over to the City of Northampton for disposition. As of the date of this audit the surplus of the project was \$3,373.57 and it is understood it will also be turned over to the City in the near future. An operating statement for the life of this project was compiled and indicated that the City has already received to date as the results of its operation \$18,970.40. This of course, does not include the current surplus on hand of \$3,373.57.

Project 200-1 - Debt Service Payments: This Authority pays into its Debt Service Fund through its fiscal agent each fiscal year from rental income an amount, which together with amounts received from other sources will equal that year's total debt requirements. In this connection this Authority will pay to its fiscal agent the sum of \$9,187.32 for the 1955 fiscal year.

This amount represents the balance required after application of the net Commonwealth subsidy of \$17,315.62 together with a reduction made because of the prior year's surplus in the amount of \$6,234.38. Premium amortization and Income on Investments totaling \$575.18 were also credited.

Project 200-1 - Commonwealth Contributions: This Authority has received to date, as provided in its Contract for Financial Assistance with the Commonwealth, subsidy contributions in the amount of \$89,992.23. These payments represent the Commonwealth's participation toward maintaining low rents as follows:

<u>Year</u>	<u>Amount of Subsidy</u>	<u>Commonwealth's Share per Tenant per Month</u>
1951	\$23,550 00	\$24 53
1952	20,472 00	21 33
1953	22,420 23	23 35
1954	23,550 00	24 53

METHUEN HOUSING AUTHORITY

REPORT NO. 55-H-76

Chapter 372-R - Surplus from Operations: It was noted that the operating surplus of this project for the fiscal year ending December 31, 1953 totaling \$1,764.03 was remitted to the Town of Methuen in March 1954 and that the surplus for the fiscal year end-

ing December 31, 1954 totaling \$1,945.72 was remitted to the Town of Methuen in April 1955.

Chapter 200 - Project 200-1 - Operations: For the fiscal year ending September 30, 1954, this project was operated at a loss of \$8,411.30 before applying the Commonwealth Contribution of \$11,305.85 and the \$3,444.15 which had been reserved from the prior year's operations for the purpose of reducing the annual subsidy contribution from the Commonwealth. The State Housing Board instructed this Authority that of the surplus of \$6,338.70 resulting after the applications of these funds \$3,000.00 will be used to reduce the subsidy for the fiscal year ending September 30, 1955 and the remaining \$3,338.70 will be transferred to the Operating Reserve.

Visit to Projects: The projects were visited in connection with this examination and it appears that Project 200-1 requires painting. It was also learned that such work was contracted on September 19, 1952 and that a primer coat was applied shortly thereafter. Subsequently and before the second coat was applied, the first coat began to peel and consequently blistered. As a result the contract was never completed. This Authority has contacted the State Housing Board and to date the matter has not been resolved.

CHICOPEE HOUSING AUTHORITY

REPORT NO. 55-H-77

Project 200-1

Debt Service Payments: This Authority pays into its Debt Service Fund through its fiscal agent each year from rental income an amount, which together with monies received from other sources, will equal that fiscal year's total debt requirements. The payment for the fiscal year 1955 was computed as follows:

Bonds Maturing and Interest		
Payable January 1, 1955		\$83,777 50
Less:		
State Subsidy	\$35,228 62	
Prior Year Surplus	19,371 38	
Interest on Investment	612 50	
Premium Amortization	977 23	56,189 73
Project Requirement November 1, 1955		<u>\$27,587 77</u>

Curtis Terrace Project - Temporary Housing

Acquisition of Project: The Chicopee Housing Authority purchased from the Public Housing Administration, under the provisions of the Lanham Act, as amended, for \$18,492.00 on November 30, 1954, the Federal Low-rent Housing project, Curtis Terrace, Mass. 19091, which consists of 250 dwelling units, 28 buildings including one administration and maintenance building and one garage with a total development area of approximately 24 acres. The assessed valuation of the project is \$395,000.00.

The cost of the project to this Authority was computed as follows:

Cost of Land	\$17,439 43
Cost of Acquisition, Expense P.H.A.	138 57
Allowance for the Department of Justice	871 97
Proration of Payment in Lieu of Taxes	42 03
	<u>\$18,492 00</u>

This payment will be made within one year by quarterly payments including interest at the rate of 2 1/2%.

There appeared to be no indication that the acquisition of this project was approved by the State Housing Board.

Loan from Meadow Terrace Project: This Authority, by vote of its members, borrowed from the City-owned Meadow Terrace Project, the sum of \$7,933.98. This loan was made to pay to the Federal Public Housing Administration for the following:

Preliminary Loan for Proposed Sandy Hill Project	\$11,000 00
Interest on Loan	597 69
Total to be Accounted for to P.H.A.	\$11,597 69
Repayment of Unexpended Balance	4,350 53
Balance of Loan Due P.H.A.	7,247 16
Add:	
Settlement of Prepaid Insurance on Curtis Terrace Project	686 82
Total Paid to P.H.A. by Loan	\$7,933 98

It was also noted that \$7,247.16, representing expenditure of \$6,649.47 for the proposed Sandy Hill project plus interest charges of \$597.69, was charged to the cost of the project.

This loan from the City-owned project, Meadow Terrace to the Curtis Terrace project was apparently made without the approval of the State Housing Board.

Project 667-1

Housing for Elderly: This Authority has been awarded 35 units under the provisions of Chapter 667 of the Acts of 1954. A contract for financial assistance between the Chicopee Housing Authority and the Commonwealth of Massachusetts was completed April 28, 1955, under which total development cost of this project is not to exceed \$253,000.00. There were no financial records or transactions to the date of audit.

EASTHAMPTON HOUSING AUTHORITY

REPORT NO. 55-H-78

Debt Service Payments: This Authority pays into its Debt Service Fund through its fiscal agent each year from rental income an amount, which together with amounts received from other sources, will equal that fiscal year's total debt requirements. The debt requirements for the fiscal year ending June 30, 1955 were computed as follows:

Bonds Maturing and Interest Payable June 1, 1955		\$12,863 75
Less:		
Commonwealth Subsidy	\$8,500 00	
Amortization of Premium	94 27	
Interest from Investment	52 50	8,646 77
Project Requirement Paid May 1, 1955		<u>\$4,216 98</u>

Fire Insurance: It was noted the cost of the new policy for fire insurance for the project effective March 1, 1955 to August 24, 1956 has increased 98%. This increase was computed as follows:

<u>Policy Term</u>	<u>Premium</u>	<u>Dividend</u>	<u>Net Cost</u>	<u>Cost per Month</u>
August 1, 1950 to March 1, 1955	\$2,436 44	\$121 60	\$2,314 82	\$42 08
March 1, 1955 to August 24, 1956	1,498 54	-	1,498 54	83 25

Tenants' Selection File: The rental charges appearing on the rent rolls of the project could not be determined from the information included in the tenants' files. It is suggested that these files contain the following information:

1. Wage verification of tenants' income
2. Detail computation of rental charge
3. Lease or rider and extract of minutes that effect rental charge to tenant

Commonwealth Contributions: This Authority has received to date, as provided in its Contract for Financial Assistance with the Commonwealth, subsidy payments in the amount of \$29,782.23 which represent the Commonwealth's participation in maintaining low rents as follows:

<u>Year</u>	<u>Amount of Subsidy</u>	<u>Commonwealth's Share per Tenant per Month</u>
1951	\$8,500 00	\$22 85
1952	6,691 51	17 99
1953	6,090 72	16 37
1954	8,500 00	22 85

ROCKPORT HOUSING AUTHORITY

REPORT NO. 55-H-79

Operations - Third Fiscal Year: The records of the Authority reflected a deficit in the amount of \$65.83 after receipt of the maximum Subsidy Contribution from the Commonwealth of \$4,075.00 for the third fiscal year under Permanent Financing which ended on June 30, 1954.

NORWOOD HOUSING AUTHORITY

REPORT NO. 55-H-80

General: The only project under the supervision of the Authority was the State subsidized project 200-1 known as Washington Heights, which went into Permanent Financing as of April 1, 1952.

There were no full-time employees, and the details necessary for the operation of the project such as rent collection, maintenance of records, accounting procedure, reports to the State Housing Board, etc., were carried on by two part-time employees.

Permanent Financing: The project has been in the "Permanent Financing" status since April 1, 1952, and the surpluses together with their disposition to the date of audit follow:

	<u>Surplus</u>	<u>To Operating Reserve</u>	<u>To Reduction Commonwealth Contribution</u>
Year Ending March 31, 1953	\$9,134 46	\$3,809 46	\$5,325 00
Year Ending March 31, 1954	5,133 70	5,133 70	-
Year Ending March 31, 1955	7,401 57*	-	-

* Disposition not as yet authorized by State Housing Board.

Operating Reserve: It was noted that the greater part of the surpluses for the years ending March 31, 1953 and 1954 were credited to the Operating Reserve. The balance of this reserve account as at the date of audit was \$20,181.30. The maximum to be reached is \$22,500.00 and this amount might have been established through regular credits prior to the close of the current year. However, because of the changing of the hot water heaters, the cost of which will be charged to this reserve, it will be necessary to continue regular reserve charges for an extended period.

Paint Purchases: An unusual condition was noted with regard to the purchase of the paint. In this connection, orders were signed by the accountant and issued to the tenants upon request, who thereupon presented the order to a local dealer who forwarded the paint which was charged to the Authority. The total purchases made by tenants on the basis of such orders for the months of September and October 1954 totaled \$980.29. This item was questioned by the State Housing Board, but after considerable correspondence it was approved. However, the local Authority was instructed to discontinue this practice in the future.

No bids had been obtained for the paint purchased which is of course contrary to the program of the State Housing Board which states:

"All purchases and contracts involving a sum in excess of \$300.00 shall be made only after invitations for bids have been publicly advertised or have been mailed to not less than three qualified vendors or contractors."

There are still 30 units to be painted and the local Authority is awaiting advice as to the suggested procedure for the purchase of paint.

Excess Cash: As of the date of audit there was a cash balance of \$37,331.67 in the

Administration Fund. As this amount is greatly in excess of current needs, it is suggested that a large portion of it be invested in United States Government Securities.

Visit to the Project: The project was visited and the buildings appeared to be in good condition. However, the grass plots and surrounding grounds were not neatly maintained. As there are no maintenance men employed by the Authority, the outside condition of the ground is the responsibility of the respective tenants.

WINTHROP HOUSING AUTHORITY

REPORT NO. 55-H-81

Project 200-1 - Architect's Fee: It was noted in the previous audit reports that an overpayment to the architect totaling \$4,050.28 should be recovered. To date, however, no definite action has been taken on this matter and the item remains unreimbursed. It is again recommended that immediate steps be taken to remedy this situation.

Visit to Projects: While this audit was in progress, a visit was made to all projects and, as a result, the following was observed:

Title V - Temporary Project

1. Trim of houses needs painting
2. Better care of grounds needed

Project 200-1

1. Bulkheads need fixing
2. Drain spouts need replacing
3. Houses need painting, including
combination doors and screens
4. Better care of grounds needed

IPSWICH HOUSING AUTHORITY

REPORT NO. 55-H-82

Surplus - Temporary Construction Project: The books of this project reflected a surplus of \$2,967.26 for the year ending December 31, 1953 and a surplus of \$2,565.47 for the year ending December 31, 1954. The first item was remitted to the Town of Ipswich in March 1954 and the second item was remitted in February 1955.

Permanent Financing - Project 200-1: The operations of this Authority for its fourth fiscal year under Permanent Financing, which ended on September 30, 1954, resulted in a surplus of \$331.26, after taking into consideration the maximum Commonwealth Contribution of \$6,800.00. This item will be transferred to the Reduction of Annual Contribution Reserve thereby reducing the State's subsidy for the ensuing fiscal year.

Visit to Projects: While this audit was in progress a visit was made to all projects and, as a result, the following was observed:

Title V - Temporary Project

1. Trim of houses needs painting

Project 200-1

1. Houses need painting
2. Screens need fixing

SPRINGFIELD HOUSING AUTHORITY

REPORT NO. 55-H-83

Veterans' Temporary Housing Projects

Demolition of Project: The three City-owned temporary sites were discontinued and their demolition and sale of buildings and equipment has been completed. This Authority has paid to the City of Springfield from this project since its inception on May 1, 1950, \$175,805.18 as follows:

Payment in Lieu of Taxes	\$ 79,070 40
Land Rentals	16,320 00
Surplus from Operations	80,414 78
	<u>\$175,805 18</u>

The final settlement with the City will be effected when all outstanding liabilities have been paid.

Project 200-1

Debt Service Payments: This Authority pays into its Debt Service Fund each year from rental income an amount, which together with amounts received from other sources, equals that fiscal year's total debt requirement. This requirement for the 1955 fiscal year was computed as follows:

Bonds and Interest Due	
October 1, 1955	\$81,887 50
Less:	
State Subsidy	\$42,252 07
Prior Year Surplus	16,047 93
Amortization of Premium	699 60
Income on Investments	578 59
	<u>59,578 19</u>

Project Requirement - Payable August 1, 1955	<u>\$22,309 31</u>
--	--------------------

Commonwealth Contributions: This Authority has received to date, as provided in its Contract for Financial Assistance with the Commonwealth, subsidy payments in the amount of \$206,275.85. It will also receive a fifth subsidy payment in the amount of \$42,252.07. These payments represent the Commonwealth's participation in maintaining low rents as follows:

<u>Year</u>	<u>Amount of Subsidy</u>	<u>Commonwealth's Share per Tenant per Month</u>
1951	\$58,300 00	\$24 29
1952	58,300 00	24 29
1953	50,078 70	20 87
1954	39,597 15	16 50
1955	42,252 07	18 52

Project 200-2

Temporary Financing: This project was transferred to Management on January 1, 1953 and is still being financed with temporary notes because the State Housing Board is still unable to obtain bids on a permanent basis at a rate less than 2 1/2%. It was noted, however, that between January 1, 1953 and December 31, 1954 \$142,000.00 of development costs were liquidated.

Commonwealth Contributions: This Authority has received to date, as provided in its Contract for Financial Assistance with the Commonwealth, subsidy payments in the amount of \$135,000.00. It will also receive a third subsidy in the amount of \$44,316.30 for the 1955 fiscal year. These subsidy payments represent the Commonwealth's participation in maintaining low rents as follows:

<u>Year</u>	<u>Amount of Subsidy</u>	<u>Commonwealth's Share per Tenant per Month</u>
1953	\$67,500 00	\$28 70
1954	67,500 00	28 70
1955	44,316 30	18 85

Project 200-3

Debt Service Payment: This Authority pays into its Debt Service Fund each year from rental income an amount, which together with amounts received from other

sources, equals that fiscal year's total debt requirement. This requirement for the 1955 fiscal year was computed as follows:

Bonds and Interest, Payable		
October 1, 1955		\$73, 875 00
Less:		
Commonwealth Subsidy	\$46, 250 00	
Amortization of Premium	729 36	
Income on Investments	472 50	47, 451 86
Project Requirement		<u>\$26, 423 14</u>

Development Fund Accounts Payable: This Authority still shows a balance of \$8, 179.93 for Development Accounts Payable of this project. It appears, however, that all such outstanding accounts payable have been paid, and it is therefore recommended that this balance be transferred to the Operating Reserve.

Commonwealth Contribution: This Authority has received to date, as provided in its Contract for Financial Assistance with the Commonwealth, subsidy payments in the amount of \$92,500.00. It will also receive a third subsidy in the amount of \$46,250.00 for the 1955 fiscal year. These subsidy payments represent the Commonwealth's participation in maintaining low rents as follows:

Year	Amount of Subsidy	Commonwealth's Share per Tenant per Month
1953	\$46, 250 00	\$28 34
1954	46, 250 00	28 34
1955	46, 250 00	28 34

Dwelling Rent Schedule: It was noted that the dwelling rent schedule for the first seven months of the 1955 fiscal year was below the minimum established to insure the financial stability of the project in every month with but one exception.

It was also noted that this project was operated at a deficit of \$938.91 for the 1954 fiscal year, which was charged to the Operating Reserve.

MONTAGUE HOUSING AUTHORITY

REPORT NO. 55-H-84

Debt Service Payments: This Authority pays into its Debt Service Fund through its fiscal agent each year from rental income an amount which together with amounts received from other sources will equal that fiscal year's total debt requirements. These requirements for the 1955 fiscal year were computed as follows:

Bonds and Interest due		
January 1, 1955		\$11, 267 50
Less:		
Commonwealth Subsidy	\$8, 125 00	
Amortization of Premium	125 35	
Income on Investment	70 00	8, 320 35
Project Requirement due		
November 1, 1955		<u>\$2, 947 15</u>

Commonwealth Subsidy: This Authority has received to date from the Commonwealth, in accordance with its contract for financial assistance, \$31,519.00 and will receive \$8,125.00 for the 1955 fiscal year. These subsidies represent the Commonwealth's participation on low rent for the tenants as follows:

Year	Amount of Subsidy	Commonwealth's Share per Tenant per Month
1951	\$8, 125 00	\$22 56
1952	7, 144 00	19 83
1953	8, 125 00	22 56
1954	8, 125 00	22 56
1955	8, 125 00	22 56

GREENFIELD HOUSING AUTHORITY

REPORT NO. 55-H-85

Chapter 372 Project

Sale of Project: This property was sold by the Town of Greenfield as of April 6, 1954. There was no record of this transaction in the financial accounts of this Authority as it was only acting as an agent for the town while managing the project. The sale price for the project was \$25,000.00.

Operating Income: This Authority paid to the Town of Greenfield during the period it managed this project from June 1, 1947 to August 5, 1954, \$21,371.75.

Project 200-1

Debt Service Payment: This Authority pays into its Debt Service Fund through its fiscal agent from rental income an amount, which together with amounts received from other sources, will equal that fiscal year's total debt requirements. This requirement for the 1955 fiscal year was computed as follows:

Bonds Maturing and Interest		
Payable January 1, 1956		\$28,037 50
Less:		
Commonwealth Subsidy	\$16,974 45	
Contribution Reduction	3,075 55	
1/40 of Premium	310 40	
Income from Investment	175 00	20,535 40
Project Requirement -		
November 1, 1955		<u>\$7,502 10</u>

Tenants' Selection Files: In reviewing the tenants' selection files, it was noted that the data on family income and dependents was incomplete, making it difficult to trace the computation of rents.

It is, therefore, again recommended that the tenants' selection files be revised so that they will include necessary information so that tenants' current rental charges may be accurately computed.

Commonwealth Subsidy: This Authority has received to date, in accordance with its Contract for Financial Assistance, from the Commonwealth the sum of \$89,738.91. These subsidy payments represent the Commonwealth's participation in low rents for tenants as follows:

<u>Year</u>	<u>Amount of Subsidy</u>	<u>Commonwealth's Share per Tenant per Month</u>
1951	\$20,050 00	\$23 21
1952	17,132 00	19 83
1953	20,050 00	23 21
1954	15,532 46	17 98
1955	16,974 45	19 66

AGAWAM HOUSING AUTHORITY

REPORT NO. 55-H-86

Project 200-1

Debt Service Payments: This Authority pays into its Debt Service Fund each year from rental income an amount which, together with amounts received from other sources, equals the fiscal year's debt requirement. For the 1955 fiscal year, this amount was computed as follows:

Bonds and Interest Payable		
October 1, 1955		\$11,372 50
Less:		
State Subsidy Contribution	\$5,303 46	
Contribution Reduction Prior		
Year Surplus	2,971 54	8,275 00
		<hr/>
Debt Requirement - Due		\$3,097 50
August 1, 1955		<hr/>

WEYMOUTH HOUSING AUTHORITY

REPORT NO. 55-H-87

Sewer Assessment: Subsequent to the purchase of a certain parcel of land, this Authority became aware of the existence of an outstanding sewer assessment which had been levied on it. This assessment in the amount of \$484.20 had been levied prior to the date the Authority became the owner and was billed in the name of the former owner who, however, maintained that it became an obligation of this Authority. This entire matter was referred to the State Housing Board and under date of March 15, 1955 the Director addressed the following letter to the attorney for the former owner:

(COPY)

March 15, 1955

Attorney ---

Dear Attorney -----:

Since returning from my annual vacation, Chairman ----- and I have spent some time in studying and discussing the ----- sewer assessment problem, and have conferred with our financial, land, and legal sections pertaining to the same.

We have given this matter our most serious consideration, and have arrived at the opinion that this is not a matter for which the Weymouth Housing Authority is responsible, and therefore, we cannot place our approval on this bill.

Both Chairman --- and I appreciate the time and effort that you have put into this problem without any hope of compensation but I am sure you realize that it is our obligation to keep the expenses of these projects just as low as possible, and we cannot approve expenditures which in our opinion are not the legal responsibility of any authority.

Very truly yours,

signed:

 Director

However, in a letter dated April 8, 1955 from the Director of the State Housing Board to the Authority this position was completely reversed as follows:

(COPY)

THE COMMONWEALTH OF MASSACHUSETTS
 STATE HOUSING BOARD
 90 Tremont St., Boston 8

April 8, 1955

Mr. -----, Exec. Director
 Weymouth Housing Board
 77 Memorial Drive
 East Weymouth, Massachusetts

In Re: Weymouth 200-1A

Dear Mr. Director:

This letter concerns the unpaid sewer assessment of the Town of Weymouth against the ----- property which was acquire as a part of this site for the above project.

This office has reviewed this matter carefully and recommends and will approve payment by your Authority of the amount due the Town.

It is important that the land in question be cleared of any lien or assessment standing against it in order that the project may be cleared for a completion certification. We feel that payment by the Authority is the only practical solution of the existing difficulty.

Payment should be made from the Development Fund and Charged to Account 1440.1, Land Purchase Price.

Very truly yours,

signed: _____

Director

Accordingly under date, this assessment in the amount of \$484.20 was paid to the Town of Weymouth. It is difficult to understand why this assessment, which was dated in 1950, was never collected from the former owner. It is also not readily understandable why the State Housing Board reversed itself. Possibly means may still be available to obtain reimbursement from the former owner.

Construction Contract - Project 200-1A: It is understood that the general contractor who constructed Project 200-1A is now in bankruptcy. There are however many minor defects in this project which should be corrected. A punch list itemizing these defects has been prepared and the Executive Director of the Authority has estimated that the contract retention of \$37,626.47 and incomplected contract account of \$16,320.87 as of the audit date are adequate to pay for all the defects listed. It was also understood that several conferences have been held with representatives of the bonding company concerned in connection with the details necessary to obtain financial reimbursement.

Final Payment to Architect: It was noted that the final payment to the architect of this project in the amount of \$2,116.15 was made without approval of the State Housing Board. It is also understood that this architect has not yet submitted the final set of plans as is specified in his contract.

Visit to Project: A visual inspection of the exteriors of the project dwellings was made and it was noted that a number of the buildings were badly in need of painting. It is understood however that requests for bids are now being prepared in this connection.

MARBLEHEAD HOUSING AUTHORITY

REPORT NO. 55-H-88

Chapter 200-1 - Permanent Financing

Bonds Retired: Bonds retired as of April 1, 1955 in the amount of \$4,000.00 had not been reflected in the ledger accounts to the date of audit. This matter was brought to the attention of the Authority's accountant and the necessary adjustment was effected.

Income on Investments: It was noted that interest on savings accounts which had been credited in April 1955 had not yet been brought on the financial records.

In this connection it was learned that the State Housing Board had approved a policy of permitting interest on the savings accounts to remain in the account, thereby increasing the Investment account.

Suit Pending: Previous audit reports noted that a law suit developed between this Authority and the Site Improvement Contractor concerning various matters pertaining to the preparation of the project site. This matter is now awaiting adjudication by the Supreme Court.

Fire and Extended Coverage Insurance Policy: It was noted that the previous insurance of this nature formerly in effect cost \$68.18 a month. New insurance of a comparable nature presently in force cost \$121.96 a month.

Visit to Projects: A visit was made to all the projects during the course of this audit, and it was noted that the homes are in need of paint. At least thirteen should be painted as soon as possible as they are in a very poor condition.

NEEDHAM HOUSING AUTHORITY

REPORT NO. 55-H-89

Suit Pending: Previous audit reports noted that a law suit developed between this Authority and the Site Improvement Contractor concerning various matters pertaining to the preparation of the project site. This matter is now awaiting adjudication by the Supreme Court.

Fire and Extended Coverage Insurance Policy: It was noted that the previous insurance of this nature formerly in effect cost \$68.18 a month. New insurance of a comparable nature presently in force cost \$121.96 a month.

Visit to Projects: A visit was made to all the projects during the course of this audit, and it was noted that the homes are in need of paint. At least thirteen should be painted as soon as possible as they are in a very poor condition.

BRAINTREE HOUSING AUTHORITY

REPORT NO. 55-H-90

Operating Surplus: The records of this project reflected an operating surplus of \$16,036.28 after taking into consideration the Commonwealth's Contribution of \$17,475.74 and the Contribution Reduction of \$9,374.26 for the second fiscal year under Permanent Financing.

Sale of Land: It was noted that a parcel of land was sold, after proper authorization and approval, for \$134.00. The proceeds were turned over to the State Treasurer and Receiver-General and were credited to the Housing Authority Bonds Sinking Fund in conformance with Chapter 508 of the Acts of 1953.

BELMONT HOUSING AUTHORITY

REPORT NO. 55-H-91

Accounts Receivable Development and Accounts Receivable Administration: The foregoing two accounts, totaling \$3,508.07, have been on the Management books since this project went into Permanent Financing on July 1, 1953. The accounts had been originally established to take care of the recovery of certain claims against a sub-contractor during the Development stage. Ultimately, a settlement in the amount of \$5,500.00 was made, leaving the foregoing balances still due. These accounts should have been closed at the time the settlement was arranged, as there is now no possibility of additional recovery as the sub-contractor has been declared bankrupt. It is suggested that these balances be written off and the proceeds entered to the Operating Reserve.

Operating Reserve: The balance of this Operating Reserve account after taking into consideration pending adjustments as of May 31, 1955 was \$2,638.50, and was an unusually small balance for this project which has been in the Permanent Financing status for almost two years. The maximum to be reached by the Reserve after five years is \$30,000.00.

The reason for this small balance was mainly due to the fact that the cost of the Project Office and Maintenance Building erected after the development account had been closed at a cost of \$17,507.37 was charged to this account.

The erection of this building was approved by the State Housing Board on October 29, 1954.

The cost of this building is not reflected on the books of the Authority, as its cost was charged to the Operating Reserve account and therefore true development costs are not shown.

The question of adjusting these accounts was discussed with the Accountant of the State Housing Board, who indicated that the accounts of the projects will be adjusted. Although no final determination has been made, it is possible that a "Property" account will be set up which will include the cost of such buildings.

Tenants' Security Deposits: In checking the security deposits from tenants, it was,

noted that prior to January 1, 1954 a deposit of \$10.00 was required from each tenant, and after that date it was increased to \$25.00.

As of the date of audit, the Deposit Account comprised the following:

73 @ \$10.00	-	\$ 730.00
27 @ \$25.00	-	675.00
		<u>\$1,405.00</u>

There were also deposits on hand of \$55.00 from tenants who had vacated in May and to whom refunds will be made in the near future.

In addition, it was noted that there was on hand \$60.00 for the accounts of six tenants who had vacated the project some time previously, four in 1953 and two in 1954. It is suggested that this \$60.00 be credited to the Repairs, Maintenance and Replacements account, as it is understood that the amounts were not refunds because of damages to apartments vacated.

Commonwealth Contribution: The Commonwealth Contribution for the fiscal year ending June 30, 1954 of \$23,500.00 was deposited with the fiscal agent on May 23, 1955. However, this item had not been brought on the books of the Authority.

This contribution of \$23,500.00 is \$4,175.00 less than the 2 1/2% subsidy allowable. The difference was to be applied as a Contribution Reduction because of the surplus accruing to the project for the fiscal year ending June 30, 1955.

This is an unusual procedure as reductions of contributions are usually established from Prior Years Surplus, and that had been credited to the Operating Reserve account. After the application of the reduction, there will be a residue of the Surplus account which will reduce the Commonwealth's Contribution for the year ending June 30, 1956.

Payment in Lieu of Taxes: The Balance Sheet as of the date of audit included a balance of \$5,100.00 Accrued Payment in Lieu of Taxes. Analysis, however, showed that the balance represented taxes for the entire 1954 year in the amount of \$3,600.00 and to May 31, 1955 in the amount of \$1,500.00. A directive from the State Housing Board to housing authorities, dated December 16, 1953, stated that the payments for the year 1954 should be made in the month of October 1954.

This matter was brought to the attention of the Executive Director and it is understood that a voucher has been prepared and will be presented for payment at the next meeting of the Board.

Comprehensive Public Liability Insurance: It was noted that an insurance bill, which had been received for the period July 27, 1954 to July 27, 1955, had not yet been paid. This bill in the amount of \$162.53 will be presented for payment at the next meeting of the Board.

Visit to the Project: The project was examined in connection with this examination, and it appeared to be in good condition.

NORTH ANDOVER HOUSING AUTHORITY

REPORT NO. 55-H-92

Fire and Extended Coverage Insurance: It was noted that this insurance formerly in effect cost \$30.08 a month while comparable insurance presently in force cost \$45.54 per month.

Operations under Permanent Financing: The records of the Authority reflected a surplus of \$1,871.39, after taking into consideration the Commonwealth's Contribution of \$4,831.68 and the Contribution Reduction Reserve of \$1,018.32, for its fourth fiscal year which ended on September 30, 1954. In accordance with instruction from the State Housing Board, this surplus was disposed of by transfer to the Operating Reserve.

It would seem that this surplus might have been used to reduce the Commonwealth's subsidy in a subsequent year inasmuch as the Operating Reserve had a balance of \$6,614.44 toward its maximum of \$7,200.00.

It was learned that it is anticipated replacing 24 hot water heaters as well as 24 sink counter tops and to date 6 hot water heaters have already been replaced.

It is also understood that this Authority will receive the maximum subsidy of \$5,850.00 for the fiscal year ending September 30, 1955.

AUDIT OF METROPOLITAN TRANSIT AUTHORITY AND RELATED AGENCIES

Audit of Metropolitan Transit Authority: Chapter 675 of the Acts of 1949 provides as follows:

"Chapter 544 of the acts of 1947 is hereby amended by striking out section 12 and inserting in place thereof the following: SECTION 12. The trustees shall determine the character and extent of the services and facilities to be furnished, and in these respects their authority shall be exclusive and shall not be subject to the approval, control or direction of any state, municipal or other department, board or commission. Except as herein otherwise provided, the department shall have the same general supervision and regulation, and jurisdiction and control over, the services and facilities of the authority as it has over street railway companies. The department of the state auditor shall annually make an audit of the accounts of the authority and make a report thereon to the trustees, the governor and council and the general court. In making said audits, said department of the state auditor may call upon the department of public utilities and other departments, commissions, officers and agencies of the commonwealth for such information as may be needed in the course of making such audits. The state auditor may employ such auditors, accountants, and other assistants as he deems necessary for carrying out his duties under this section, and chapter thirty-one of the General Laws and the rules made thereunder shall not apply to such employees."

A complete report of an audit of the accounts of the Metropolitan Transit Authority for the calendar year ending December 31, 1954, was issued on July 25, 1955. In order that our audit might be comprehensive and complete, separate examinations of the accounts of the Boston Metropolitan District and the Transit Mutual Insurance Company were also completed and reports issued.

General: Individual copies of the audit reports have been submitted to His Excellency the Governor, the Lieutenant-Governor, the President of the Senate, the Speaker of the House, the State Librarian, the Governor's Councilors, and the Senators, Representatives and officials of the cities and towns of the Boston Metropolitan District and the members of the Board of Trustees and officials.

SCHEDULE OF TRANSIT AUDITS --- FISCAL YEAR 1954-1955

Agency	From	To
Metropolitan Transit Authority	Jan. 1, 1954	Dec. 31, 1954
Boston Metropolitan District	Jan. 1, 1954	Dec. 31, 1954
Transit Mutual Insurance Company	Jan. 1, 1954	Dec. 31, 1954

The following comments, exceptions and recommendations were included in the reports issued in connection with this examination:

1. **AUDIT:** This audit was conducted under the provisions of Chapter 675 of the Acts of 1949, which amended Section 12 of Chapter 544 of the Acts of 1947 and provides for an annual audit of the accounts of the Metropolitan Transit Authority by the Department of the State Auditor.

This report covers the calendar year 1954, and, in addition, separate reports covering the same period have been issued as the result of separate examinations of the Boston Metropolitan District and the Transit Mutual Insurance Company.

In further connection with this audit, the accounts of one concessionaire of the Authority, selected by the Department of the State Auditor, were examined to the extent necessary to verify payments made to the Railway by that concessionaire.

2. **GENERAL:** Following the latest fare increase during the year 1954, passenger traffic on the MTA dropped sharply to 244,112,283 passengers, representing a decrease of 24 million passengers. In addition, there was a decrease in revenue miles operated by the Railway from 44,264,384 in 1953 to 42,278,693 in 1954. This is a trend in MTA affairs which actually started in 1950 and which has been accelerated in the past few years, principally because of successive fare increases.

The prior audit report stated:

"It has been the stated opinion of this department since the creation of the Metropolitan Transit Authority that the ultimate solution to the problems of the Railway lies in expansion of low cost rapid transit service throughout the present area. Any expansion of the rapid transit system under the present Trustees has not progressed beyond the talking and planning stage. ..."

"The present Trustees have on five separate occasions sought fare increases, and in actual fact reduction of deficits accomplished through fare increases affords no relief whatsoever to the taxpayers of the District. No Trustees in the brief history of the Metropolitan Transit Authority have apparently recognized the fact that costs of the MTA are going to be paid by the taxpayers of this area, either in fares or in deficits. We see no financial gain from fare increases; in fact, such increases can be detrimental to the District for they encourage many commuters to use their cars to drive into Boston, thereby adding complications to the traffic problems of the city and placing an additional burden upon the taxpayers to provide highway and parking areas for this extra traffic."

The Trustees should realize by now that the present MTA system cannot produce the revenue necessary to meet even their own reduced estimates of the costs of the Railway. The solution lies in an expansion of rapid transit throughout the present area of the Railway which would:

- 1) Increase the passenger load
- 2) Decrease operating costs
- 3) Contribute measurably to the lessening of automobile traffic within the urban areas of the Railway District

The perspective of the Trustees has been a narrow one. They have considered only the present operating structure of the Railway, and in an attempt to combat decreased passenger revenue they have raised fares and cut service on the already inefficient, expensive and time-consuming system, while on the other hand literally hundreds of thousands of dollars have been expended on costly surveys and studies of extensions of rapid transit services, none of which have been accepted.

The proposals resulting from these studies have had one thing in common, they have entirely ignored the possibility of an economical expansion of rapid transit service, and in every instance have based such extensions on tremendously expensive subway construction and the taking of valuable land presently used for domiciliary or manufacturing facilities. The results of these proposals therefore have been completely negative.

We cite as an example of such expensive and elaborate planning the now defunct proposal to eliminate the present elevated structure in the City of Boston.

Chapter 694 of the Acts of 1949 authorized the Authority to construct additions to the Washington Street Tunnel from Haymarket Square to Sullivan Square at a cost not to exceed \$24,000,000.00. Under this Act the Authority borrowed \$825,000.00 for preliminary surveys and from this money the Authority has spent \$750,271.58.

This costly study estimated that the cost of the extension to Sullivan Square would

be \$28,000,000.00 and this amount was \$4,000,000.00 in excess of the amount authorized by the Legislature.

When these estimates were brought to the attention of the Chairman of the MTA Advisory Board, he ruled that since the plans for these extensions were beyond the authorization of the Legislature, both as to the amount and the route, therefore these plans were considered to be merely "informative" and it was not necessary for the Advisory Board to act upon them.

The net effect has been that \$750,271.58 has been completely wasted since at the present time all plans for these alterations lie dormant.

This department believes that the possibility still exists that these worthwhile and necessary improvements to the Railway facilities, which would prove of great value to the City of Boston, by elimination of the elevated structure in Charlestown, can undoubtedly be accomplished at a reasonable and practical cost.

In this connection, attention is directed to the following excerpt from a letter which was forwarded to the Chairman of the Board of Trustees of the MTA by this department on October 6, 1953:

"The elevated structure could be removed in the Charlestown area at a minimum cost to the MTA. Property value to the City of Boston would be substantially enhanced, while at the same time, an opportunity would be provided to extend rapid transit service to large areas of Somerville, Everett, and Malden, if either of the two following suggestions prove feasible:

1) Construct an MTA station under the North Station; continue the present rapid transit tunnel beyond Friend and Union Streets in this new station, continuing the tunnel under the B. & M. yards, surfacing in the railroad yards and continuing on the railroad right of way to a point near the present East Somerville station of the railroad. Such construction would eliminate the elevated structure in Charlestown and the station at Sullivan Square at a reasonable cost.

2) Combine the stations at Friend, Union and Haymarket Square, and have the present trolley car service stop at this new combined station. The rapid transit cars now proceeding by elevated structure to Sullivan Square and Everett would then proceed over the viaduct now used by trolley cars to reach Lechmere Square. Eliminate the present overpass and station at Lechmere Square and allow the rapid transit at that point to come to ground level in the B. & M. yards, and continue through the same yards to a point near or at the present location of the East Somerville station of the Boston and Maine Railroad.

"Under either of these arrangements, the MTA could also continue rapid transit from the new Lechmere Square site through Somerville over the B. & M. right of way to provide rapid transit service to a large area of Somerville. The extension of rapid transit could also be continued from the proposed MTA station at East Somerville over the Saugus branch right of way of the Boston and Maine Railroad to provide rapid transit service to Everett and to Malden.

"We agree that payment must be made to the Railroad for such occupancy, but the cost of such occupancy and contingent alterations would be far less than any suggestions hitherto raised to eliminate the Charlestown elevated structure. We believe that the advantages of mass transportation offered by rapid transit would by increased patronage and lower operating costs more than offset such expenditures. Certainly substantial savings in operating expenses could be expected for such extension through the elimination and reduction of expensive feeder service."

3. MANAGEMENT - 1954: For the calendar year 1954, the Authority reported a net assessable deficit of \$6,473,494.53, but the actual cost of railway operations to the taxpayer amounted to \$7,321,335.48, a difference of \$847,840.95.

This substantial difference arises from the fact that the Trustees in reporting their deficits are permitted to exclude the cost of principal payments on subway purchase and new construction bonds, interest on deficit notes issued by the State Treasurer, and the costs of operating the Boston Metropolitan District. These items, however, are paid

by the taxpayers.

The following is a summary of the various items that demonstrate an actual cost of \$7,321,335.48 levied on the taxpayer rather than the deficit of \$6,473,494.53 as reported by the Trustees:

Loss Reported		\$6,473,494 53
Add:		
Other Costs Not Included in Loss Resulting from Operation but Assessed Directly on Cities and Towns:		
Retirement of Subway Purchase and New Construction Debt	\$791,592 60	
Interest on Deficit Notes Issued by State Treasurer	48,248 35	
Boston Metropolitan District Budget	8,000 00	847,840 95
Actual Cost to Taxpayer		<u>\$7,321,335 48</u>

Despite the loss of 24,174,016 paying passengers, the revenue from operations was increased \$1,556,911.41 only because of the increase in fares that became effective April 12, 1954.

A decrease in the operating expenses of \$1,337,035.34 is reflected in the following table:

	1954	1953	Decrease
Wages	\$28,379,931 21	\$29,446,974 58	\$1,067,043 37
Materials, Services, etc.	4,224,724 74	4,414,946 58	190,221 84
Depreciation	1,200,000 00	1,200,000 00	-
Injuries and Damages	1,277,655 66	1,287,949 65	10,293 99
Fuel	1,868,816 65	1,891,225 32	22,408 67
Power Interchange	(63,606 19)	(46,288 38)	17,317 81
MTA Retirement	1,696,543 31	1,726,292 97	29,749 66
Totals	<u>\$38,584,065 38</u>	<u>\$39,921,100 72</u>	<u>\$1,337,035 34</u>

On page 2 of the Eighth Annual Report of the Trustees of the MTA it is stated:

"We believe it will be of interest to point out that the 1954 results of the Authority's operations will, on the basis of previous apportionments, lessen the burden of the taxpayers in the 14 communities which own the MTA. ..."

While the savings to the taxpayers indicated by the Authority's report seem to amount to \$1,877,181.55, the attention of the Trustees is directed to the fact that the cost of using MTA facilities by those who commute daily was increased approximately \$15.00 per year in 1954. We find no savings to the people of the District.

On October 25, 1954, the Public Relations Department of the MTA issued a press release in which it was stated:

"In September, the MTA continued to show a profit before fixed charges. Despite a substantial loss of revenue during the hurricane periods, as well as a considerable expenditure for emergency restoration of service, the MTA in September was 'in the black' after costs of operations by \$2,700.04, before fixed charges. ..."

The report was certainly designed to mislead because the MTA was not "in the black". Actually, for the month of September 1954 the Railway had a loss of \$483,422.95, and this does not include the other costs that are assessed directly upon the cities and towns and which do not appear on the accounts of the MTA. It is also worthy of comment that this "in the black" figure which the Trustees claim, was arrived at by decreasing the amount normally reserved for injuries and damages in September by \$60,000.00, and then in the month immediately following, the normal reserve was reestablished by raising the October accrual to \$160,000.00.

4. **CASH POSITION:** On December 31, 1954, the Railway had in its possession in unrestricted cash \$2,429,278.09, and, in addition, it held \$1,997,985.33 in Treasury Bills plus special deposits set aside for current liabilities amounting to \$250,358.95.

In prior years when in cash difficulties, the Authority had borrowed money from private sources through the Boston Metropolitan District. In November of 1954 the Authority, under the provisions of Chapter 409 of the Acts of 1954, procured from the State Treasurer an advance of \$2,500,000.00 against the deficit for the year 1954.

The records of the Authority would seem to indicate that the Railway did not need the \$2,500,000.00 which was advanced by the Commonwealth, for it will be noted from the above that the Authority had in cash and readily negotiable treasury bills a total of \$4,687,622.37 on December 31, 1954 when the advance of \$2,500,000.00 was received in November by the MTA; \$2,000,000.00 was immediately invested in Treasury Bills and on December 31, 1954 this investment remained untouched.

We agree with the provisions of Chapter 409 which eliminated private borrowing and made it possible for the Trustees to obtain an advance against the deficit, but we believe that such advances should be sought only when absolutely needed by the Authority. We, therefore, recommend that the Boston Metropolitan District, which has a degree of responsibility for the financing of the Railway, be given the right to approve or disapprove such requests for advances by the Authority.

The financial statements included in this report also indicate the following to be the working capital status of the MTA on December 31, 1954 as compared with the previous year.

	1953	1954
Total Current Assets	\$16,669,787 89	\$12,065,058 66
Total Current Liabilities	11,260,736 09	5,849,247 59
Working Capital	<u>\$5,409,051 80</u>	<u>\$6,215,811 07</u>

From the above schedule it will be noted that working capital increased during the year by \$806,759.27, an increase of approximately 15%.

This improvement in the working capital of the Railway can be attributed solely to the fact that the deficit of 1954 was charged \$1,200,000.00 as a reserve for depreciation which actually -- as explained later in this report -- is a misnomer and actually represents payments made by the taxpayers to provide funds for the replacement of certain capital items which have become obsolete or worn-out. As is demonstrated later in this report, the MTA charged the deficit of 1954 \$1,200,000.00 for the replacement of these assets and then actually expended only \$489,000.00 for such purposes, which resulted in an enhancement of the cash of the Railway in the amount of \$711,000.00.

5. **BANK DEPOSITS:** During the year 1954, the MTA maintained non-interest bearing deposits in eleven banks. Of these eleven banks, one handled the vast majority of the transactions of the Railway, and no substantial balance was carried in this bank over and above the sums needed to cover these transactions. Two other banks with substantial average deposits of one million dollars and five hundred thousand dollars, respectively, handled only a fraction of the transactions that were being handled by the first depository. The other eight banks appeared to be reserve banks. Five of these banks had continuously on deposit a minimum of \$50,000.00 each, while three carried continuous deposits of at least \$25,000.00 each. All of these accounts were commercial accounts on which no interest was paid to the MTA.

From a study made of these deposit balances, it appears that at least one million dollars of the monies so deposited could have earned interest during 1954.

6. **FUNDED DEBT:** As of December 31, 1954, the principal amount of the funded debt of the Metropolitan Transit Authority amounted to \$132,826,187.64, made up as follows:

Original Debt	\$ 65,918,371 89
Subway Debt	37,538,149 08
New Construction and Off-Street Parking Debt	19,032,666 67
Revenue Equipment Debt	10,337,000 00
	<u>\$132,826,187 64</u>

The deficit reported by the Authority for the 1954 year amounted to \$6,473,494.53,

and of this amount \$5,430,180.29 represented the cost of interest and retirements of the Original and Revenue Equipment Debts, but included only the interest on the Subway and New Construction Debt since the principal payments on these debts, which in 1954 amounted to \$791,592.60 was assessed directly upon the taxpayers of the cities and towns and are not included in the MTA deficit.

(a) Original Debt: During 1954, the outstanding amount of this debt was reduced one million dollars, leaving a balance of \$65,918,371.89 on December 31, 1954. This amount represents the balance of the debt of the Boston Elevated Railway Company existing at the time that the road became publicly owned.

During 1954 the cost of service was charged with \$1,000,000.00 in bond retirements and \$1,378,046.86 in interest costs of this debt. The actual costs of interests and retirements during 1954 under the terms of the original MTA Purchase Act of 1947, would have amounted to approximately \$4,275,000.00, however, in an earlier report issued on August 8, 1947, this department commented on the situation as follows:

"The debt of the District ... if distributed over a period of years by long-term financing, can measurably contribute to reduction of current deficits."

Apparently as a result of this comment, Chapter 572, Acts of 1949, amended the original statute so that the debt is now being retired at the rate of one million dollars per year. Under these revised provisions, five and one half million dollars of the original debt has been retired since August 2, 1949.

(b) Subway Debt: Under the provisions of Chapter 572 of the Acts of 1949, the Metropolitan Transit Authority acquired title from the City of Boston to all subways used by the Authority. On August 3, 1949, the debt in connection with the acquisition of these subways amounted to \$40,219,445.43. Debt retirement payments at the rate of \$536,259.27 per year have reduced this debt to \$37,538,149.08 on December 31, 1954. The annual debt retirement of the subway debt is not included in the cost of service, but it is assessed directly upon the taxpayers of the fourteen cities and towns of the Boston Metropolitan District. Interest costs on this debt, amounting to \$1,694,948.68 in 1954, are included in the cost of service.

It has been and still is the contention of this department that the subway debt retirement payments should be charged to the cost of service and reported by the MTA as a part of the deficit. The present tendency to transfer certain fixed charges from the cost of service to a direct assessment on the fourteen cities and towns is of no benefit to the taxpayers but merely places the Authority in a more favorable light in reporting its annual deficit.

(c) New Construction and Off-Street Parking Debt: This debt includes all bond indebtedness incurred by the Authority since August 3, 1949 for transit construction and off-street parking facilities.

Total bonds issued for new construction and off-street parking facilities to December 31, 1954 have amounted to \$19,900,000.00, and of that total \$19,032,666.67 were outstanding on that date. Bonds issued during 1954 amounted to \$750,000.00 and were for the purpose of further financing the Rapid Transit Extension to Revere. Bond retirements during 1954 amounting to \$255,333.33 which cost was assessed directly on the fourteen cities and towns of the District was not reflected in the cost of service. Interest costs of this debt, charged to the cost of service in 1954, amounted to \$331,731.91 while interest payments in 1954, charged to construction, amounted to \$74,797.92.

Again, it is the opinion of this department that the cost of retirement of the new construction and off-street parking debt should be reflected in the operations of the Authority and not assessed directly on the fourteen cities and towns.

(d) Revenue Equipment Debt: Authorization to issue bonds for the purchase of revenue equipment and for capital additions and improvements to revenue equipment is provided by Section 22, Chapter 544, Acts of 1947, as amended. Bonds outstanding for the purchase of revenue equipment may not exceed \$15,000,000.00 at any one time. Bond issues for capital additions and improvements are limited to \$3,000,000.00. The terms of bonds issued under this statute are required to be equivalent to the estimated life of the equipment purchased but in no case for a period exceeding thirty years.

Serial equipment bonds issued to December 31, 1954 amounted to \$13,261,000.00 of which \$10,337,000.00 were outstanding on that date. Of the bonds outstanding, \$8,900,000.00 were originally issued for the purchase of revenue equipment and

\$1,437,000.00 for the capital additions and improvements. During 1954, new bond issues for the purchase of revenue equipment amounted to \$254,000.00. Bond retirements during 1954 were \$838,000.00, while interest costs on equipment bonds during the year amounted to \$187,452.84. Bond retirements and interest costs are charged to the cost of service.

7. DEPRECIATION: Chapter 544 of the Acts of 1947, the Act which created the Metropolitan Transit Authority, in Section 11 permitted the Trustees to include in the cost of service . . .

" . . . such allowance as the trustees, subject to the approval of the department, may deem necessary or advisable for depreciation of property . . . "

Attention is directed to the fact that when Chapter 544 of the Acts of 1947 was originally enacted, the Authority purchased from its own funds all revenue equipment, therefore, a substantial charge to the cost of service was needed to cover the depreciation of these vehicles.

Chapter 572 of the Acts of 1949 ordered that in the future all purchases of revenue equipment would be made from funds raised by bond issue and that the life of the bond issue would be geared to the potential life of the equipment being purchased. This statute therefore eliminated any further charges against the cost of service for depreciation of equipment.

Certainly it would be improper to charge the cost of service for depreciation of subways and tunnels, for when they were purchased from the City of Boston, bond retirement payments on this debt were established by statute at a rate of \$536,259.27 per year. The principal payments on this debt are assessed directly upon the fourteen cities and towns and the interest is reflected in the deficit reported by the Authority. Any new additions or extensive alterations to the existing system are handled in the same manner, since any debt arising from new construction or alterations to the system is handled the same way as the original subway and tunnel debt. In neither of these instances, therefore, is any depreciation charge necessary or proper.

The cost of all fixed assets purchased from the Boston Elevated Railway at a cost of seventy-one million dollars is paid by a \$1,000,000.00 annual bond retirement payment, which is charged to the cost of service.

The allocation of the costs of all these assets was charged against the taxpayers of the cities and towns of the District in 1954 at a cost of \$2,629,592.60, but in addition, the Railway added to the deficit an arbitrary amount of \$1,200,000.00 as a charge for depreciation, which brought the taxpayers' cost in 1954 to \$3,829,592.60. We must agree that a charge to operations is needed by the Railway to obtain funds for replacements and minor capital additions which cannot be purchased from available bond funds, but attention is directed to the fact that while the Trustees charged the taxpayers \$1,200,000.00 in 1954 for the replacement of such assets, they actually spent for these purposes only \$489,000.00, which therefore placed an extra \$711,000.00 in the treasury of the Authority at the expense of the taxpayers.

Agreeing therefore that a charge for such replacements is necessary to the Authority, we insist that it should be based upon the actual needs of the Authority, subject to budgetary control, and not based on an unrealistic depreciation policy which is inconsistent with existing statutes.

We again recommend that this charge for depreciation to the cost of service be discontinued and that the taxpayers of the District in the future be charged in the annual deficit only for the cost of necessary replacements. Under such processes the taxpayers would only be reimbursing the Authority for money actually spent in this direction.

This same change in the accounting procedures of the Authority was recommended previously by this department, and our recommendation was upheld by an engineering and accounting survey conducted in 1953, by a private organization, at a cost to the Authority of \$100,000.00. Previous to this survey, the Authority had consistently ignored the recommendation of this department that this charge to the cost of service should be discontinued, but when the accounting and engineering survey which was ordered by the General Court made the same recommendation, the Trustees -- obviously feeling the need of support for their position -- hired another accounting firm which, at a cost of \$225.00 in 1953, gave approval to the depreciation policy of the Railway. It is worthy of further comment that again in 1954 the Trustees at a cost of \$350.00 obtained an almost identical endorsement from the same accounting firm of their depreciation policy.

Attention is directed to the fact that this accounting organization, in making their report to the Railway in this matter, arrived at their opinion solely from information sup-

plied to them by the Railway and without actual examination of the accounts involved.

We recommend that Section 11 of Chapter 544 of the Acts of 1947 be amended by eliminating from it the power of the Trustees to charge the cost of service with any allowance for depreciation.

Had this been done in 1954 the operating costs would have been reduced \$711,000.00 which certainly would have made completely unnecessary the Trustees' present request for a further fare increase.

8. FARE INCREASES: In this connection, the previous audit report stated:

"The activities of the present Trustees have been largely devoted to a reduction in the services provided by the Railway and a consequent reduction in the number of hourly rate employees of the Railway, accompanied by consistent and continuing efforts to increase fares.

"Five different petitions have been made to the D. P. U. by the present Trustees for increases in the fare structure of the Railway, and certain of these must be described as entirely unreasonable and exorbitant and which if adopted would undoubtedly -- despite the contention of the present Trustees -- result in even greater financial losses than those currently suffered by the Railway."

On July 6th of 1955 the MTA filed a petition with the Department of Public Utilities for an increase of 2¢ in the token and local fares of the MTA. Under this proposal, the system fare of 20¢, with full transfer privileges would remain the same, except that the sale of 5 tokens for 90¢ would be abolished. Under this arrangement, also all local fares, without transfer privileges, would be raised to 15¢ from 13¢.

Commenting on fare increases, the previous report stated:

"It should be obvious that it is not possible while operating the MTA system, as it is presently constituted, that any fare structure could be set up which would provide all of the funds necessary to meet all of the costs . . ."

During the last full year of Boston Elevated Railway operations, the road carried 433,094,952 passengers, and in 1954 the total number of passengers carried by the MTA had dropped to 244,112,284. While it must be admitted that changes in the economics of the area and improvements to highways and parking facilities in the City of Boston have contributed measurably to this decline in revenue passengers, the facts are inescapable that increases in the fare structure and decreases in service have also been important factors in this decline. In 1946, the last year of Elevated operation, the road operated 55,400,283 revenue miles, while in 1954 revenue miles operated declined to 42,278,693, and this included a drop of 2 million miles in 1954 alone.

The decline in passenger riding reported herein has been accelerated under the policies of the present Trustees. A pattern has been established which is still being followed and one which will eventually lead to the complete financial breakdown of the Railway. The cycle can be described in the following manner:

- 1) Fares are increased, and as a result
- 2) Passengers decrease, and as a result
- 3) Service is decreased, and as a result
- 4) Revenues decrease, and as a result
- 5) Fares are increased

and this complete cycle appears now to be starting anew.

This department believes that no further increases in fares should be permitted until such a time as a sensible and economical survey of the possibility of extending rapid transit throughout the present District served by the MTA be made, and in this connection the previous audit report stated:

"The greatly heralded economics of the present Trustees have been accomplished by reducing operations and consequent reductions in the hourly pay roll. It cannot be denied that the Railway has lost passengers and revenue as a result of this policy. This department reiterates its stated opinion of the past several years, that the ultimate solution of the financial problems of the MTA lies not with a continuous contraction of service but rather with an economical

"expansion of rapid transit service within the area now served by the Authority.

"The continuous efforts which have characterized the administration of the present Trustees to seek increases in the fare structure of the Authority cannot provide a solution. Whatever the costs of the system are, they will be met by the taxpayers of the fourteen cities and towns that constitute the MTA district. If fares are raised then the increase in fares must come from these taxpayers, while, on the other hand, if deficits increase, the cost of those deficits will be paid by the same taxpayers. In reality the Railway with extended economical rapid transit service could operate on a lower fare structure to the economical benefit of the area with little effect on the taxpayers who, in any event, must bear the costs of the Railway.

"This department recommends that the Trustees attack the basic problem of the Railway, which is a continuing decline in passengers, through an economical amplification of the low operating cost rapid transit system."

9. **PASSENGER SERVICE:** During the year 1954 the Railway carried 244,112,283 passengers, a reduction of 24,174,016 from the preceding year. This total represents the lowest passenger load in the history of the Railway, going back as far as 1918 when the road first became publicly controlled.

The substantial decrease resulted primarily from the extensive fare increases installed by the Trustees during the year, but certainly a contributing factor is a service curtailment policy also initiated by the Trustees, who, during 1954, cut the passenger service of the Railway by 1,985,691 revenue miles. The service presently offered by the Railway, as evidenced by revenue miles operated, is the lowest in the public history of the Railway.

(a) **Revenue Equipment:** The following is a comparative summary of revenue equipment operated by the MTA:

On Hand December 31:	1953	1954
Surface Cars	507	431
Rapid Transit	478	478
Trackless Trolley	443	414
Buses	543	524
Totals	1,971	1,847

During the year 1954, this equipment was operated 42,278,693 revenue miles as compared with 44,264,384 revenue miles during the year 1953, representing a curtailment of approximately two million miles in revenue service during 1954.

(b) **Lines Discontinued in 1954:** The following is a summary of lines discontinued by the MTA during the year 1954:

Date	Route #	
6/19	1352) 1353)	Fields Corner - Fields Corner Belt Line (bus) Partially replaced by new routes 1347 - 1382
9/11	2516	Faraday & Wash. Sts. - Mattapan Sta. (bus) Replaced by extended route 2564
12/11	4278	Beachmont - Broadway & Beach Sts. (bus) Replaced by new route 4279
9/11	4342	Wood Island Park Sta. - Maverick Sq. (bus) via Lexington St. Replaced by new route 4347
3/20	4305) 4306)	Jeffries Point - Maverick Maverick St. (Airport exit) - Maverick Replaced by new route 4343

9/11	4020	Woodlawn - Wood Island Park Sta. (Tr. Tr.) Replaced by new route 4035
6/19	4053) 4060)	Revere Carhouse - Orient Heights Sta. Revere Loop - Orient Heights Sta. Discontinued with extension of RTL to Wonderland
9/11	3464 3470	Waverly - Harvard Sq.) Watertown - Harvard Sq.) Night bus routes Replaced by route 3463 Harvard Sq. - Harvard Sq. (loop bus)
9/11	4341	Condor & Meridian Sts. - Maverick Sq. (bus)

(c) New Lines: The following is a summary of new lines initiated by the MTA in 1954:

<u>Date</u>	<u>Route #</u>	
6/19	1513	Ashmont - Dudley (Tr. Tr.) via Talbot Ave., Blue Hill Ave. Operates after 7:00 P.M. to replace 1506 Grove Hall - Dudley via Blue Hill Ave.
9/12	2152	Boston College - Boston University Field (car) Sunday only - Church service
9/11	4035 4036	Woodlawn - Maverick Sq. (Tr. Tr.) via Meridian St. Bridge Bellingham Sq. - Maverick Sq. (Tr. Tr.) Replaced routes formerly running to Wood Island Park Station
8/2	(1347 (Codman Sq. - Uphams Cor. (bus) via Wash., Bowdoin, Hancock
6/19	(1382	Ashmont Term. - Uphams Cor. (bus) via Fields Cor., Savin Hill, Stoughton St. Partial replacement of Belt Line.
6/19	1390	Hallet Sq. - Fields Cor. Sta. (bus) middle of day only, via Hallet, Gallivan Blvd., Adams. Replaced Hallet Sq. - Ashmont middle of day.
8/2	1393	Columbia Point Housing Project - Columbia Circle (bus)
12/11	2564	Wakefield Ave. & Truman Hwy. - Mattapan Line extended Faraday St. to Wakefield Ave.
9/13	2069	Heath St. - North Station Operates 2 car trains in place of 2066 Heath St. - Park St.
9/11	3463	Harvard Sq. - Harvard Sq. (night bus) Loop Line via Waverly and Watertown replaced Waverly - Harvard and Watertown - Harvard night buses.
3/20	3484	Concord Turnpike (St. Camillus Church) - Harvard Sq. (bus) via Concord Turnpike
12/11	4279	Broadway and Yeamans - B'way and Yeamans (bus) Loop Line Replaced Peachmont to B'way & Beach St. line

3/20	4343	Maverick Sq. - Maverick Sq. loop (bus) Replaced former 4305 - 4306
9/11	4347	Wood Island Park Sta. - Maverick Sq., via White St. Replaced Lexington St. Line
6/19	RTL	Extended Orient Heights to Wonderland

(d) Service Interruptions: The following is a summary of interruptions in MTA service in the year 1954 as compared with the previous two years.

DERAILMENTS AND SPLIT SWITCHES

Year	Derail- ments	Split Switches	Total	CAUSE			
				Equip. Failure	Man Failure	Foreign Sub. in Switch	Cause Unknown
1952	37	14	51	8	16	16	11
1953	26	7	33	9	11	11	2
1954	28	3	31	5	10	9	7

DEFECTS CAUSING DELAYS IN SERVICE

Year	1952	1953	1954
Surface Cars	716	611	461
Trackless Trolleys	162	220	220
Buses	897	494	541
R.T.L. - Main Line	8	19	4
- Camb. Dorch.	5	18	1
- East Boston	32	21	29

TOTAL ACCIDENTS CAUSING DELAYS IN SERVICE

1952	8,151
1953	7,385
1954	6,775

10. TRANSIT CONSTRUCTION: During 1954, subways, tunnels, and other facilities constructed since August 2, 1949, increased \$1,725,798.97, bringing the total expended as of December 31, 1954 up to \$18,937,894.30 and leaving balances in the funds provided for this purpose from bond issues totaling \$983,261.67.

(a) Washington Street Tunnel Extensions and Tremont Street Subway Additions: Under Chapter 649 of the Acts of 1949, the Authority borrowed \$825,000.00 for a preliminary survey of the Washington Street tunnel extensions and \$1,000,000.00 for the Tremont Street Subway additions. From these borrowings the Authority has spent respectively \$750,271.58 and \$781,868.26, leaving balances that represent an overcapitalization of \$292,860.16.

(b) East Boston Rapid Transit: As of December 31, 1954, the cost of this extension and the funds provided therefor is as follows:

Funds provided by City of Boston bond issues	\$ 6,062,133 79
Funds provided by MTA bond issues	13,915,008 72
Total Funds Provided	\$19,977,142 51
Total Cost as of December 31, 1954	19,739,832 45
Unexpended Balance, December 31, 1954	<u>\$237,310 06</u>

This project has been in use since January of 1952. It does not appear that there will be a material change in this unexpended balance in the future.

(c) Off-Street Parking: Chapter 544 of the Acts of 1947, as amended, limited the construction of off-street parking areas to \$1,500,000.00. To date, under this authorization, bonds have been issued at a premium providing \$677,043.97 for this purpose. As of December 31, 1954, only \$247,786.42 of this borrowed money had been spent, leaving a balance, from all issues for off-street parking, of \$429,257.55. This department is not aware of any plans contemplated by the MTA for the further use of these funds. This is an outstanding example of overborrowing - for here we have an instance wherein the taxpayers are being directly assessed to repay funds borrowed by the Railway and most of these funds are lying idle in the MTA treasury.

(d) Revere Extension: To raise funds for the construction of this extension, bonds were issued on March 1, 1953 and March 1, 1954 for \$2,257,872.75 and \$750,000.00 respectively, totaling \$3,007,872.75, which exceeded the statutory limitation by \$7,872.75. This extra money resulted from a premium on the borrowing and was transferred to the Authority's unrestricted cash account. Expenditures as of December 31, 1954 amounted to \$2,927,219.08, leaving a balance of \$72,780.92 to cover the remaining liabilities. Actually, the Authority exceeded the \$3,000,000.00 statutory limit in this construction. This fact is commented on elsewhere in this report.

(e) Cambridge - Arlington Extension: Bond issues of \$200,000.00 were authorized by statute to provide funds for a study of the cost of this extension of the Cambridge rapid transit. Under this authorization, bonds were issued that provided, at a premium, a total of \$150,524.85. The cost of this survey amounted to \$106,608.95, leaving a balance that represents an overcapitalization of \$43,915.90, or approximately 29% of the proceeds of the bond issue.

The cost of the proposed extension as determined by study was estimated as follows:

From Cambridge to North Cambridge	\$24,000,000 00
From Cambridge to Concord Turnpike	31,000,000 00
From Cambridge to Arlington Heights	42,000,000 00

As a result of these extravagant costs, plans for this extension are apparently dormant, since the Trustees did not recommend such construction to the General Court.

(f) Other Alterations: Section 8A of the Acts of 1947, as amended, places alterations of the Authority's facilities into two categories: first, under construction initiated by the City of Boston's Transit Department to be completed by the Authority, and second, construction and alterations on property owned by the Authority.

Funds were provided for alterations under the first category as follows:

Transferred from unexpended balances of City of Boston bond issues	\$228,411 07
MTA bond issues	353,578 43
Total funds provided	\$581,989 50
Expended	509,240 45
Balance transferred to paragraph (i) by Chapter 551 of the Acts of 1952	<u>\$72,749 05</u>

Funds were provided for alterations under the second category as follows:

Funds transferred to paragraph (i) by Chapter 551 of the Acts of 1952 as above	\$ 72,749 05
Unexpended balances from Washington Tunnel and Tremont St. Subway Additions, Chapter 417, Acts of 1954	292,860 16
Total funds provided	\$365,609 21
Expended under Chapters 517 and 551 of the Acts of 1952 and 417 of the Acts of 1954	165,611 97
Balance available Dec. 31, 1954 for paragraph (i) alterations	<u>\$199,997 24</u>

(g) Summary:

	Total Funds Provided	Expended	Balance Unexpended Dec. 31, 1954
Alterations, Sec. 8A (H), Chapter 544, Acts of 1948, Chapter 520, Acts of 1948	\$ 353,578 43	\$ 353,578 43	
Alterations, Sec. 8A (I), Chapter 544, Acts of 1947, Chapter 517 and 551, Acts of 1952 \$ 72,749 05 Chapter 417, Acts of 1954	292,860 16	365,609 21	165,611 97 \$ 199,997 24
Cambridge Subway Extension to Arlington	150,524 85	106,608 95	43,915 90
East Boston Rapid Transit	13,915,008 72	13,677,698 66	237,310 06
Off-Street Parking	677,043 97	247,786 42	429,257 55
Revere Extension of East Boston Rapid Transit	3,000,000 00	2,927,219 08	72,780 92
Tremont Street Sub- way Addition	1,000,000 00	781,868 26	218,131 74*
Washington Street Tunnel Extensions	825,000 00	750,271 58	74,728 42*
Totals	<u>\$20,286,765 18</u>	<u>\$19,010,643 35</u>	<u>\$1,276,121 83</u>

* Used for other purposes with the consent of the General Court.

As of December 31, 1954, by law, proceeds of bond issues that have resulted in an overcapitalization amounting to \$365,609.21 have been diverted from the original purposes for which the funds were intended and have been set aside for alterations. In addition, under pending legislation, it appears that the Trustees may be permitted to use at least an additional \$300,000.00 of such excess funds for purposes other than those for which the monies were originally borrowed.

We do not question the present propriety of such transfer since the funds have actually been borrowed and are laying idle but the situation has arisen so often that it appears that the overcapitalization of construction projects is deliberate especially in view of the fact that this department, in the previous audit reports has pointed out to the Trustees how other governmental agencies have been financing construction to avoid extravagance in borrowing.

Again we recommend that the means of financing construction take the form of temporary borrowing under notes, and that only when the total cost is ascertained should permanent financing under bond issues be substituted. The advantages of this type of financing are:

- (1) Avoidance of overcapitalization.
- (2) Bond issues will reflect true cost of construction.
- (3) Lower interest costs for temporary financing during construction.

11. REVERE EXTENSION: Chapter 418 of the Acts of 1952, which provided for an extension of rapid transit facilities to Revere, provided in its first section as follows:

"The authority shall construct and equip an addition to the existing East Boston rapid transit extension in the city of Boston consisting of a rapid transit line connecting with said East Boston rapid transit extension at a point northerly of the Orient Heights station and extending in a northerly direction along the route formerly used by the Boston, Revere Beach and Lynn Railroad to a point in Revere southerly of Revere Street; including therein an underpass or an overpass at Winthrop Avenue in said city of Revere and such stations, parking areas and other appurtenant facilities as are determined by the authority to be necessary.

"The authority may expend for the purposes of this section not exceeding three million dollars. No construction work shall be done under this section until a preliminary plan therefor, together with estimates of cost indicating that the project can be completed at a cost not exceeding three million dollars, shall have been approved by the commission of the department of public utilities. Any plan so approved under this section may be altered at any time by a new plan approved in like manner."

It will be noted from the second paragraph that the statute places a limit of \$3,000,000.00 on expenditures to be made in the construction of this extension and attention is directed to the fact that the first paragraph specifies that parking areas are to be considered a part of the cost of constructing this extension.

In connection with the Revere extension, our last report stated:

"In our last two reports we have protested vigorously the proposed costs of new stations of the Revere extension, and now it is a matter of public awareness that substantial funds have been wasted in the creation of this extension through the construction of elaborate and costly stations. Certainly the financial benefits that should accrue from this most desirable extension will be considerably lessened as the result of expenditures made in the erection of these stations."

Attention is directed to the fact that MTA records indicate that the total expenditures in connection with the Revere extension as of December 31, 1954 amounted to \$2,927,219.08, and on that date, there remained on hand an unexpended balance of \$72,780.92.

The MTA records in this instance are incorrect and the Authority, as a result of extravagant construction costs, have been forced to a subterfuge to meet statutory provisions. Despite the requirements of Chapter 418 of the Acts of 1952, the Railway expended \$52,867.22 for a parking area at Suffolk Downs and \$93,714.50 for a parking area at Wonderland Station, a total cost of \$146,581.72 for parking areas, which has been excluded by the MTA from the cost of the Revere extension, and has been paid from funds provided to the Railway for the building of other parking areas. Had these costs been included by the MTA in their regular construction costs of this extension, the three million dollar limitation specifically provided by the Legislature would have been exceeded. At the time the Trustees became aware of the fact that they were about to exceed statutory limitations, they should have sought an additional allowance from the General Court. It is recommended that the authorities of the MTA be requested to explain this diversion of funds and that they be ordered to transfer the unexpended balance of the Revere extension bond issue to replace at least in part the funds that they have thus expended in excess of the amount provided by statute.

This extension was originally recommended by this department in an audit report issued on August 3, 1951. The Authority ignored the recommendation until finally the General Court ordered its construction. Despite extravagant construction costs in connection with the building of stations on this extension, to which this department has previously objected, this is the type of rapid transit extension which this department heartily endorses, for only such extensions can solve the basic problems of the Metropolitan Transit Authority.

Attention is directed to the fact that this extension to date of audit has cost \$3,073,800.80. By contrast, an extension of rapid transit from Haymarket Square to Sullivan Square, which is a much shorter addition, under plans proposed by a \$750,271.58 study would have cost \$28,000,000.00. This extension has eliminated much of the costly feeder service previously operated between East Boston and Revere, and it has attracted new passengers, and additional revenue to the Railway.

The following is a summary of expenditures to December 31, 1954 made by the Metropolitan Transit Authority in connection with the construction of the Revere Extension:

Funds Provided:		
30 year 2 3/4% Bonds Dated March 1, 1953	\$2,250,000 00	
Premium on 30 year 2 3/4% Bonds Dated March 1, 1953	7,872 75	\$2,257,872 75
30 year 2.30% Bonds Dated March 1, 1954		<u>750,000 00</u>
Total Proceeds of Bond Issues		\$3,007,872 75
Less:		
Bond Proceeds Transferred to Regular Cash		<u>7,872 75</u>
Cost of Revere Extension Statutory Limitation		<u>\$3,000,000 00</u>
Cost of Extension as of December 31, 1954:		
Financing Expenses:		
Interest on \$2,250,000.00 - 2 3/4%		
30 year bonds	\$87,803 13	
Expense of issuing \$750,000.00 - 2.30%		
30 year bonds	<u>1,599 06</u>	
Total Cost A/C Financing	\$89,402 19	
Less:		
Interest Received A/C Temporary		
Investment of Bond Proceeds	<u>19,741 76</u>	
Net Cost A/C Financing		\$ 69,660 43
Construction Costs:		
General:		
Preliminary And General Engineering	\$ 71,248 11	
Workmens' Compensation Insurance	8,705 35	
Land Takings, Damages, Legal Expenses,		
Right of Way Expenses	58,102 81	
Vacation Allowances	25,804 23	
Temporary Power and Lighting Facilities	697 08	
Temporary Construction Buildings, Misc.		
Hand Tools, Supplies	21,248 46	
Purchase of Construction Equipment and Tools	6,450 07	
Signals and Interlocking	242,009 59	
Right of Way Fencing	65,529 02	
Miscellaneous Property Takings - Maintenance		
and Other Expense Prior to Razing	202 91	
Track, Roadbed, and Drainage Facilities -		
Engineering and Construction from South of		
Suffolk Downs Station to North of Wonderland		
Station	507,560 54	
Engineering A/C Power Facilities South of		
Suffolk Downs Station to North of Wonderland		
Station	7,089 89	
Installation of Power Facilities South of		
Suffolk Downs Station to North of Wonderland		
Station	303,712 55	
Installation of MTA Telephone Facilities from		
Tower "T", Orient Heights to Wonderland		
Station Yard	1,325 79	
Shirley Ave. Bridge - Engineering and Recon-		
struction of Bridge including street Approaches	38,060 07	
Beach Street Bridge - Engineering and Recon-		
struction of Bridge including street Approaches	30,832 52	
Extension of Baker Ave. - Engineering and		
Roadway Construction	48,696 79	
Installation of Fence and Steps on Property Line		
between Baker Ave. and Ocean Ave. Loop	2,400 76	
Installation Snow Melter - Suffolk Downs to		
Wonderland	<u>5,570 85</u>	
Total General (Excludes Station Construction)		\$1,445,247 39

Stations:

Suffolk Downs:

East Bound - Construction of Station including Fencing, Lighting, Fire Protection, Pedestrian Overpass to Westbound Platform	\$95,582 36	
Fare Collection Facilities	<u>5,103 81</u>	100,686 17.

Beachmont Station:

Engineering and Construction including all Equipment, etc., exclusive of Fare Collection Facilities and Winthrop Ave. Overpass	\$593,962 25	
Fare Collection Facilities	<u>9,934 34</u>	603,896 59

Revere Beach Station:

Engineering and Construction including all Equipment, etc., exclusive of Fare Collection Facilities	\$330,200 61	
Fare Collection Facilities	<u>15,979 54</u>	346,180 15

Wonderland Station:

Engineering and Construction including all Equipment, etc., exclusive of Fare Collection Facilities	\$324,096 08	
Fare Collection Facilities	25,366 28	
Installation of Trackless Trolley Power Facilities	<u>12,085 99</u>	361,548 35

Total Expended as of December 31, 1954		\$2,927,219 08
Unexpended Balance of Funds Provided, December 31, 1954		<u>72,780 92</u>

Total Funds Provided as Above		<u>\$3,000,000 00</u>
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Other Construction Costs not Included Above as of
December 31, 1954

Parking Areas (included in off-street Parking):

Suffolk Downs Station:

Engineering and Construction of Complete Facilities including Land Takings, Legal Expenses, Betterments, etc.	\$52,867 22
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Wonderland Station:

Engineering and Construction of Complete Facilities including Land Takings, Legal Expenses, Betterments, etc.	<u>93,714 50</u>
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Total Parking Areas	<u>\$146,581 72</u>
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12. ADVERTISING TO PROMOTE TRAFFIC: In February 1953, the Trustees authorized an appropriation of \$20,000.00 for advertising, and on August 28, 1953 this authorization was canceled and a sum of \$30,000.00 was then appropriated, while an additional \$600.00 was authorized on December 28, 1953, making available to the Railway \$30,600.00 for advertising for the period between August and December 1953. Including expenditures from the original appropriation, MTA advertising cost \$38,253.09 in 1953.

For the calendar year 1954, the Trustees authorized expenditures of \$61,889.71, and it is worthy of comment that actual expenditures during 1954 for such purposes amounted to \$86,149.35. The difference of \$24,259.64 represents the cost of certain items of expenditure which the Director of Publicity, who is an independent contractor, has claimed are not proper charges against his expenditures for advertising.

We question the propriety of the Treasurer-Comptroller of the MTA permitting expenditures of nearly \$25,000.00 in excess of the amount specified by the Trustees without bringing the matter directly to the attention of the Trustees. Since the Trustees for the year 1955 have authorized expenditures of \$90,000.00 for advertising, it is recommended that the Trustees instruct the Treasurer-Comptroller as to the extent of authority resting with the Director of Publicity in determining what are proper charges against this authorization.

From the examination made by this department of the items in question, the purpose for which this extra money has been expended was unmistakably in connection with advertising to promote traffic.

13. INSURANCE - GENERAL: The Metropolitan Transit Authority carried the following types of insurance as of December 31, 1954:

Type	Description	Amount	1954 Cost
Fire	Rolling Stock and Fixed Assets not including subways, etc.	\$87,300,000 00)	
Aircraft & Vehicle Accident	Certain MTA Real Estate in the flight pattern of Aircraft	2,622,300 00)	\$ 55,176 49
Workmen's Compensation	As Per Statute	As Per Statute	385,005 59
Fidelity & Holdup	Fidelity & Holdup	1,050,000 00	1,772 00
Boiler	General Boiler & Machinery	250,000 00	3,329 69
Automobile	On MTA Sedans Personal injuries and Property Damage	50,000 00 B/I 50,000 00 P/D	26,083 05
Excess Public Liability	Personal Injuries and Damages	Excess over to 50,000 00 2,050,000 00	39,325 10
Bus Surety Bond	As Per Statute		20 00
Total Charged to Cost of Service			<u>\$510,711 92</u>

In addition to these charges to the cost of service, the Authority itself pays the cost of personal injuries and damages up to \$50,000.00 in one accident, and these costs in 1954 amounted to \$1,619,978.14, thereby increasing the total cost of insurance charged to the cost of service to \$2,130,690.06.

The Authority is protected from loss by fire and extended coverage under policies carried by a stock company with co-insurance clauses calling for 100% coverage on rolling stock and 90% on other insurable property.

(a) Injuries and Damages: The costs of Injuries and Damages and Expenses relating thereto, excluding excess public liability insurance in the amount of \$39,325.10 added \$1,619,978.14 to the cost of service in 1954 which included \$1,200,000.00 in monthly accruals. The latter charge represents the management's estimate of payments for the MTA's liabilities for injuries and damages incurred in 1954 while the balance of \$419,978.14 represents the cost to the MTA for processing claims in 1954. Comparative figures for calendar years 1953 and 1954 follow:

	1954	1953
Direct Expenses:		
Salaries and Pay Roll of Claim Dept.	\$298,723 79	\$306,272 22
Investigating Expense, Doctors' Examinations and reports, etc.	38,260 01	32,124 87
Preparation and Trial of Cases	33,179 00	44,251 48
Miscellaneous Expenses of Claim Dept.	9,755 19	8,262 14
Moving of Offices from Sixth to Seventh Floor	10,000 00	-
Direct Expenses of Claim Dept.	<u>\$389,917 99</u>	<u>\$390,910 71</u>
Other Expenses:		
Payments to Car & Bus Men for Accident Reports	\$ 816 84	\$ 1,064 49
Time of Employees of other Depts. at Claim Dept. of Court	19,509 47	20,806 82

Maintenance of First Aid Rooms	\$ 2,393 87	\$13,068 97
Compensation to Employees Injured in Performance of Duty	7,339 97	7,162 10
Other Expenses	<u>\$30,060 15</u>	<u>\$42,102 38</u>
Monthly Provision for Injuries and Damages	\$1,200,000 00	\$1,200,000 00
Total Cost of Injuries and Damages	<u>\$1,619,978 14</u>	<u>\$1,633,013 09</u>

In prior audit reports this department had repeatedly called attention to the fact that the management had been unjustifiably inflating the assessable deficit through excessive charges to the cost of service in overestimating the liability for injuries and damages. From January 1, 1946 to December 31, 1951 the assessable deficit was inflated in this manner by \$1,046,982.04 as indicated by the following summary.

Calendar Year	Cost of Service Charge for Estimated Payments for Release of Claims	Actual Payments for Release of Claims	Excessive Charges to Cost of Service
1946	\$1,355,000 00	\$1,171,472 04	\$ 183,527 96
1947	1,316,002 74	1,101,226 90	214,775 84
1948	1,300,000 00	1,159,866 06	140,133 94
1949	1,350,000 00	1,167,706 20	182,293 80
1950	1,400,000 00	1,228,347 21	171,652 79
1951	1,575,000 00	1,420,402 29	154,597 71
Excessive Charges to Cost of Service from 1946 to 1951			<u>\$1,046,982 04</u>

During the period from January 1, 1952 to December 31, 1954, however, this balance has been gradually reduced.

Calendar Year	Cost of Service Charge for Estimated Payments for Release of Claims	Actual Payments for Release of Claims	Credits to Cost of Service Excess of Payment Over Estimate
1952	\$1,425,000 00	\$1,477,580 21	\$ 52,580 21
1953	1,200,000 00	1,386,114 92	186,114 92
1954	1,200,000 00	1,418,947 44	<u>218,947 44</u>

Credits to Cost of Service to Offset Prior Excessive Charges \$457,642 57

In the period from January 1, 1946 to December 31, 1951, the Cost of Service was charged with \$1,046,982.04 in excess of actual costs, and as a result, the Reserve for Injuries and Damages was increased by the same amount without actually reserving the cash thus accrued from the taxpayers of the district. It appears that this type of accounting had been used to obtain funds by indirection.

In recent years the MTA management has reversed this practice and reduced the balance of excess charges by \$457,642.57.

While this is a step in the right direction, as long as the present procedure remains, the possibility still remains that overcharges may be made against the cost of service. In view of the fact that the MTA is reinsured for this type of liability in a single accident for any payment in excess of \$50,000.00 to \$2,050,000.00, it would appear unlikely that any substantial fluctuations in such payments can happen. We, therefore, recommend that the accounting for injuries and damages should be placed on a cash basis.

Should the management accept this proposal, an immediate savings to the fourteen communities of the MTA would result, for the amount of the reserve would be immediately applied against the deficit in the year the change-over was made.

Attention is directed to the fact that the balance in this reserve on December 31, 1954 was \$1,475,140.15.

(b) Unemployment Insurance: Under the provisions of Chapter 431 and Chapter 509, Acts of 1954, the employees of the Metropolitan Transit Authority are insured under the Employment Security Law.

Section 2 of Chapter 431, Acts of 1954, states in part:

"... Such instrumentality shall be liable for payments in lieu of contributions required of employers liable for contribution under this chapter, and shall pay into the fund an amount equivalent to the amount of benefits and dependency allowances paid to the claimants who during the applicable base period were paid wages by such instrumentality which were used to compute such benefits. The amount of payments required under this subsection shall be ascertained as soon as practicable at the end of each month or quarter, and request for payment shall be made to the instrumentality.

"In addition to said payments in lieu of contributions the instrumentality shall also be liable for the payment of the administrative costs of the payment of such benefits. The director shall as soon as practicable at the end of each quarter ascertain such costs and shall submit a statement setting forth the amount of such administrative costs to the instrumentality against whom benefit charges were made."

Chapter 509, Acts of 1954, which specifically authorizes the Metropolitan Transit Authority to cover its employees under the Massachusetts Employment Security Law, was approved May 28, 1954 and took effect immediately upon its passage.

Invoices from the Division of Employment Security are forwarded quarterly to the Authority. The cost of such unemployment payments during 1954 was as follows:

Reimbursement for benefits paid:		
July, August and September 1954	\$3,341 00	
October, November and December 1954	<u>7,021 00</u>	\$10,362 00
Administrative Costs:		
July, August and September 1954 -		
132 checks @ \$1.15 per check	\$151 80	
October, November and December 1954 -		
275 checks @ \$1.15 per check	<u>316 25</u>	<u>468 05</u>
Total Invoices Received		\$10,830 05
Estimated Accrual for 1954 payments, not billed until first quarter of 1955		<u>400 00</u>
Total Charges to Cost of Service in 1954 for Unemployment Insurance		<u>\$11,230 05</u>

Under existing statutes which govern contributions by employers in support of employment security, the cost to the MTA in 1954 could have amounted to \$270,000.00, while under this special legislation the cost to the Railway was only \$11,230.05. This is a substantial savings but principally because during the brief existence of this statute, there were comparatively few lay-offs by the Railway.

14. POWER STATIONS: The Authority operates two power plants known as the Lincoln and South Boston Power Stations, which apparently are adequate for the needs of the Authority. In addition, the Railway has a twenty-year agreement with a private utility for exchange of power during the respective peak needs of each. During 1954 the Railway collected \$158,311.51 for power sold to the private utility, while during the same period the MTA purchased \$94,705.32 in power from the private utility. The difference, in favor of the MTA was \$63,606.19. In addition to this transaction the MTA sold power to their concessionaires during the year amounting to \$4,200.93.

Power for the Chelsea Division is purchased directly by the MTA from the same private utility, and for the year 1954 the cost of this power amounted to \$22,483.21.

The Authority also maintains twenty-two substations which operate to convert alternating current generated at the power plants to the direct current actually used by the system.

In recent years, separate studies of the power generating and transmission systems of the MTA have been made by two reputable firms of national prominence, and in both instances they have agreed that the cost of power generating and distribution by the MTA is high, primarily as a result of antiquated and obsolete equipment.

The reports from these two organizations disagree as to the solution of this problem. One recommends that the power plants be sold and that the power be purchased from

private sources, while the other recommends that the generating facilities should be consolidated at the South Boston Power Station and that the plant be completely renovated and modernized.

In addition to the obsolescence pointed out by these studies, MTA power costs are increased by the fact that in recent years the Authority has turned more and more to the purchase of self-propelled revenue equipment, thus decreasing their need for electric energy. The power plants of the MTA are able to produce a great deal more power than is presently being consumed by the Railway, and as consumption is decreased the cost of the power that is consumed rises.

15. GASOLINE AND DIESEL OIL TAXES: Since the creation of the Metropolitan Transit Authority, it has been the expressed opinion of this department that this Railway, which is a public agency, should be exempted from the payment of gasoline and diesel oil taxes.

During the year 1954, the MTA paid \$156,262.22 in gasoline taxes and an additional \$47,018.90 in diesel oil taxes, and this entire amount, which totaled \$203,281.12 was included in the 1954 deficit and assessed on the taxpayers of the MTA District.

Attention is again directed to the fact that only an extremely small fraction of MTA bus mileage is actually performed on State highways, and, at the same time, by contrast it is pertinent to point out that a substantial part of the gasoline revenues accruing to the Commonwealth are collected from within the area and therefore from the same people who pay the MTA deficit. By contrast, attention is directed to the fact that the MTA is exempt from federal taxes on gasoline and oil.

We again recommend that the Metropolitan Transit Authority be exempted from the payment of State gasoline and diesel oil taxes.

16. ACCOUNTING PROCEDURES: In connection with this audit, the following revisions in accounting procedures are recommended:

(a) **Pay Roll:** A complete I. B. M. system of pay roll accounting has been adopted, with the exception of punch card pay roll checks, and this omission makes bank reconciliations by machine impossible. Under such circumstances the full value of a machine installation is not being utilized. It is recommended that complete automation of the Pay Roll Department be accomplished as soon as possible.

(b) **Materials and Supplies:** A "Standard Stock System" of stores control initiated in 1953 is in the process of completion. Prior to the installation of this system, there were various receiving and shipping depots placed to serve their respective zones which included several cost centers where materials and supplies were stored. In each such location and depot, records were kept in detail that recorded the receipts and issues of stock. With the new installation, only a basic supply is maintained at each cost center. As the materials and supplies are used, they are replenished from Rolling Stock and Shops, Engineering and Maintenance, and Power depots where the records of inventories are kept. Control is maintained at the Park Square Office Machine Accounting Department where physical inventories are checked every three months. The use of this system has resulted in a reduction of funds invested in materials and supplies and in clerical requirements.

Six of seven storerooms visited were found to be keeping reasonably accurate records and maintaining proper internal control. Steps should be taken, however, to tighten the internal control at the Power Department storeroom, the lack of which appears to account for the inaccuracies found in the records at that location.

In July 1954, the installation of the "Standard Stock System" was ostensibly completed and the inventories agreed with the ledgers. On February 9, 1955, this department made a test check of the inventory and the perpetual inventory cards at the Power Department Storeroom. Ninety-nine active accounts were selected with a value of \$110,046.52 representing approximately 25% of the value of the total inventory at that location. Of the ninety-nine items, forty-seven were found to be inaccurate. The variances were checked in detail, and it is believed that the errors arose from the following sources:

- 1) Emergency night crews take material without recording such transactions.
- 2) Material is deposited on platform outside of stockroom with no data as to its proper disposition.
- 3) Errors occur in requisitions.
- 4) Material is sometimes returned without notifying the stock clerks.
- 5) Incorrect postings have been made to stock cards.

- 6) Difficulty exists in locating material on record.
- 7) Material and supplies are open to easy access.

For the above reasons, the inventory at the Harrison Avenue Storeroom, valued at \$460,334.53, could not be verified.

17. EXECUTIVE PAY ROLL: The following is a summary of changes made on the executive or monthly pay roll during the year 1954:

Employees on Monthly Pay roll:	
Month Ended December 31, 1953	107
Month Ended December 31, 1954	103

RECONCILIATION OF MONTHLY PAY ROLL

Number of Employees on Pay Roll	
Month Ended December 31, 1953	107
Deduct:	
Employees Retired	5
Employees Deceased	1
Employees Transferred to Weekly Pay Roll	1
	<u>7</u>
	100
Add:	
Employees Transferred from Weekly Pay Roll	<u>3</u>
Number of Employees on Pay Roll	
Month Ended December 31, 1954	<u>103</u>

During 1954, the following salary increases were authorized by the Board of Trustees:

Supervisor of Timetables	\$ 1,228 00
General Attorney	2,000 00
Asst. to General Counsel	600 00
Supt. of Power	2,000 00
81 Other Classifications (11/1/54)	22,500 00
Chief Electrical Engineer	300 00

For the month of December 1953, the monthly pay roll totaled \$69,997.88, while in the month of December 1954 it had decreased to \$69,820.32 showing a net decrease of \$177.56. The following is an analysis of these changes:

Decreases:	
Retirements	\$3,141 67
Deceased	635 42
Transfers to Weekly Pay Roll	370 83
Decrease in Salary	129 16
Yearly Salary Adjusted	<u>04</u>
Total Decreases	\$4,277 12
Increases:	
3 Transfers from Weekly Pay roll	\$1,667 09
81 Below Rank of Executive Officers and Dept. Heads	1,875 00
5 Individuals	<u>557 47</u>
Total Increases	4,099 56
Net Decrease	<u>\$177 56</u>

The cost of this executive pay roll does not include payments of \$11,017.97 made to the Director of Publicity and \$6,582.01 paid to a special representative of the Board of Trustees.

At various meetings of the Board of Trustees held between January 14, 1955 and June 24, 1955, the following increases were voted to employees on the executive pay roll:

<u>Title</u>	<u>Increase</u>	<u>From</u>	<u>To</u>
General Manager	\$ 2,500 00	\$27,500 00	\$30,000 00
General Counsel	1,000 00	20,000 00	21,000 00
General Attorney	1,000 00	20,000 00	21,000 00
General Supt.	1,000 00	15,000 00	16,000 00
Supt. of Engr. & Maint.	1,000 00	14,200 00	15,200 00
Supt. of R. S. & S.	1,000 00	14,200 00	15,200 00
Supt. of Power	2,000 00	10,500 00	12,500 00
Chief Power Dispatcher	197 00	6,603 00	6,800 00
Atty. in Gen. Counsel's Office	1,000 00	8,575 00	9,575 00
Asst. Power Dept.	475 00	6,725 00	7,200 00
Atty., Gen. Att. Office	575 00	6,925 00	7,500 00
Atty., Gen. Att. Office	575 00	6,925 00	7,500 00
Atty., Gen. Att. Office	575 00	6,525 00	7,100 00
Atty., Gen. Att. Office	575 00	5,425 00	6,000 00
Asst. Dist. Supervisor	825 00	5,500 00	6,325 00
Auditor	500 00	9,500 00	10,000 00
Asst. Treas. Compt.	300 00	9,125 00	9,425 00
Asst. Auditor	500 00	8,925 00	9,425 00
Supervisor of Rev. Accts.	300 00	7,625 00	7,925 00
Asst. Supt.	500 00	9,275 00	9,775 00
Super. Sur. Lines Equip.	250 00	7,925 00	8,175 00
Super. R. T. Lines Equip.	250 00	7,925 00	8,175 00
Super. Automotive Equip.	250 00	7,925 00	8,175 00
Total Increases	<u>\$17,147 00</u>		

18. WEEKLY PAY ROLL: The following is a summary of the changes in the MTA weekly pay roll during the year 1954:

Employees on Weekly Pay Roll:	
Week Ended December 25, 1953	6,596
Week Ended December 31, 1954	6,166

RECONCILIATION OF WEEKLY PAY ROLL
December 25, 1953 and December 31, 1954

Number of Employees on Pay Roll	
Week Ended December 25, 1953	6,596
Deduct:	
Employees Laid Off	179
Employees Resigned	107
Employees Pensioned	239
Employees Died	47
Employees Dropped	4
Employees Discharged	8
Employees to Military Service	3
Employees to Monthly Pay Roll	2
Employees - Temporary Absence	28
	<u>617</u>
	5,979
Add:	
Employees Hired	32
Employees Reemployed	146
Employees Returned from	
Military Service	9
	<u>187</u>
Number of Employees on Pay Roll	
Week Ended December 31, 1954	<u>6,166</u>

19. ROLLING STOCK: The Authority is restricted by statute in the purchase of revenue equipment, since the outstanding bonds issued for the purchase of revenue

equipment may not exceed \$15,000,000.00 at any one time. Originally this limit was set at \$10,000,000.00 but was increased to \$15,000,000.00 by Chapter 549 of the Acts of 1952.

During 1954 the Authority purchased twelve buses at a cost of \$233,239.44. An analysis of the changes in revenue equipment during the year is as follows:

	Surface Cars	Rapid Transit Cars	Buses	Trackless Trolleys	Total
On Hand January 1, 1954	507	478	543	443	1,971
1954 Purchases	-	-	12	-	12
	507	478	555	443	1,983
Less:					
1954 Retirements	76	-	31	29	136
On Hand December 31, 1954	431	478	524	414	1,847
Net Decrease in 1954	76	-	19	29	124

From 1947 through 1952, trackless trolleys were increased from 187 to 440, while buses decreased from 582 to 531 during the same period. Apparently, the MTA has now reversed its policies in this matter, for, since 1952 the Authority has purchased only 16 trackless trolleys, while 35 buses were bought in 1953, 12 more in 1954, and plans for 1955 call for the purchase of 70 buses during the year. The following is a comparison of buses and trackless trolleys on hand at the end of each year since 1947:

On Hand Dec. 31,	Buses	Trackless Trolleys
1947	582	187
1948	612	257
1949	594	315
1950	608	340
1951	616	430
1952	531	440
1953	543	443
1954	524	414

Of the 524 buses on hand at December 31, 1954, 407 were gasoline buses, while 117 were diesel buses. The most recent acquisitions have been diesel buses.

20. DISPOSAL OF SNOW REMOVAL EQUIPMENT: In 1953 the Authority informed the cities and towns that the Railway would no longer plow public highways, except those on which the Railway operated street cars. As a result of the adoption of this policy, certain snow removal equipment became surplus to the needs of the Authority and was, therefore, offered for sale to the fourteen cities and towns of the Boston Metropolitan District.

Sales by the Authority to the cities and town during 1953 and 1954 were as follows:

Sold To	1953 SALES Equipment Sold	Selling Price
Town of Arlington	2 - Walter Trucks with Sand Spreaders	\$ 2,235 00
City of Boston	16 - Walter Trucks with Sand Spreaders)	
City of Boston	3 - F.W.D. Trucks with Sand Spreaders)	21,530 00
City of Boston	2 - Bucket Loaders	1,180 00
City of Boston	20 - Road Plows with Frames	2,000 00
City of Cambridge	7 - Walter Trucks with Sand Spreaders	7,455 00
City of Cambridge	1 - Bucket Loader	350 00
City of Chelsea	3 - Walter Trucks with Sand Spreaders	3,225 00
City of Malden	3 - Used Plows	180 00
City of Medford	6 - Walter Trucks with Sand Spreaders	5,250 00
City of Revere	4 - Walter Trucks - (3) with Sand Spreaders	3,500 00

City of Somerville	5 - Walter Trucks with Sand Spreaders	\$ 5,175 00
Total 1953 Sales		<u>\$52,080 00</u>

<u>1954 SALES</u>		<u>Selling Price</u>
<u>Sold To</u>	<u>Equipment Sold</u>	
City of Malden	3 - Walter Trucks - (2) with Sand Spreaders	\$ 2,425 00
City of Malden	2 - F.W.D. Trucks with Sand Spreaders	2,880 00
City of Malden	1 - Bucket Loader	590 00
City of Malden	1 - Snow Loader	300 00
City of Malden	5 - Used Plows	750 00
City of Newton	9 - Used Plows	670 00
Total 1954 Sales		<u>\$ 7,615 00</u>
Total Sales		<u>\$59,695 00</u>

The fifty-one snow-fighter trucks listed in the above sales ranged from 1933 to 1940 models.

In addition to the sales of equipment, one Walter Snow-Fighter truck was leased to the Town of Watertown for \$1.00 per year under an agreement by which that town has agreed to plow and sand those streets in Watertown on which the street car-rails of the Authority are located. Another Walter Snow-Fighter truck was leased to the Town of Brookline for \$300.00, with the option to purchase on or before April 30, 1955 for \$1,520.00. If the option is exercised, the rental cost will be applied to the purchase price. In December 1954, the Authority leased an additional four used snow-fighter trucks to the City of Boston under an agreement similar to that entered into with the Town of Watertown.

21. **USE OF MTA FACILITIES BY OTHER TRANSPORTATION SYSTEMS:** Again we call the attention of the Trustees to the fact that MTA facilities are being used by other transportation companies without charge. It does certainly appear that the company or companies jointly using the MTA stations should share the burden of the cost of maintaining these facilities.

In this connection, our previous audit report stated:

"The common use of facilities constructed by and at the expense of the Authority by other transportation companies without charge for the use of these facilities is not reasonable. Such facilities are mutually advantageous to the MTA and to the company or companies involved, and it is the opinion of this Department that a more equitable distribution of the cost of maintaining these facilities should be attempted."

At a meeting of the Trustees held on May 8, 1953, it was voted:

"That the General Manager be and he hereby is authorized and instructed to arrange a conference with representatives of all private bus or street railway companies who use the facilities of the Authority for the pick-up and discharge of passengers for the purpose of reaching a mutually satisfactory agreement under which they will compensate the Metropolitan Transit Authority for the said use of such facilities."

A meeting of the Trustees held on August 28, 1953 voted as follows on this matter:

"That the General Manager be and he hereby is authorized in the name and behalf of the Authority to give written notice, in form approved by the General Counsel to carriers whose vehicles enter upon the premises of the Authority for the purpose of discharging and/or receiving passengers thereon, that existing agreements relative to the use of such premises shall terminate on November 1, 1953, unless prior to that date such agreements are changed so as to provide for a charge of twenty-five cents for each bus trip over such premises, or in lieu thereof an appropriate monthly charge, a bus trip being every time a vehicle enters in, upon or over such premises."

On October 23, 1953, the Trustees weakened in their demands when they voted:

"That the General Manager be and he hereby is authorized in the name and behalf of the Authority to give written notices in form approved by General Counsel to carriers whose vehicles enter upon the premises of the Authority for the purpose of discharging and/or receiving passengers thereon due to the approach of inclement weather and insufficient time to reach an understanding on this matter, and in order not to discommode passengers of the Authority and said carriers, the date for termination of existing agreements relative to the use of such premises shall be deferred to May 1, 1954 instead of November 1, 1953."

Finally on April 9, 1954, the Trustees in this connection voted as follows:

"That the vote of this Board of August 28, 1953 authorizing the General Manager to terminate on November 1, 1953 Agreements with carriers whose vehicles enter upon our premises be, and the same hereby is rescinded.

"That the vote of this Board of October 23, 1953 authorizing the General Manager to extend the date for termination of existing agreements with carriers whose vehicles enter upon our premises from November 1, 1953 to May 1, 1954, be, and the same hereby is rescinded.

"That the General Manager be, and he hereby is authorized, in the name and behalf of the Authority, to give written notice, in form approved by General Counsel, to carriers whose vehicles enter upon the premises of the Authority for the purpose of discharging and/or receiving passengers, that the notice terminating the existing agreements heretofore sent to said carriers are cancelled, and that the said agreements shall remain in force after May 1, 1954."

The Trustees have apparently completely reversed their original position, and are now willing to continue to grant free use of their facilities to other railways.

22. **PASSENGER AUTOMOBILES:** On December 31, 1953, the Authority owned and operated twenty-seven passenger cars, and on December 31, 1954 this number had increased to twenty-nine, the increase apparently resulting from the need of providing transportation for two nurses who are assigned to check on the new "sick leave-plan" initiated at the beginning of the year.

During the year 1954 these cars were operated a total of 656,814 miles and the total expenses for gas and oil amounted to \$7,231.17, while the maintenance costs on the same vehicles totaled \$4,798.11. In addition to these vehicles, the MTA during the year 1954 paid certain employees \$8,421.10 for the use of their own cars during the year, while cars were also rented by the MTA from a private auto rental concern during the year at a cost of \$1,608.73. Total running costs to the MTA for passenger automobiles during the year 1954 amounted to \$22,059.11.

23. **OFFICE SPACE:** For the calendar year 1954, total costs to the MTA for the office space used by the Railway general offices, amounted to \$127,977.77.

An analysis of these expenditures follows:

Rent	\$116,917 70
Electricity	8,498 27
Porter Services	506 40
Overtime Heat	339 91
Clock Service	123 00
Water Service	1,028 30
Miscellaneous	564 19
	<hr/>
	\$127,977 77

The amount paid for rent amounting to \$116,917.70 represented a decrease of \$12,739.30 from the calendar year 1953 and resulted from surrender of space occupied by the Authority on the sixth floor. This space was given up in May of 1954 and therefore for the calendar years 1955 and 1956 the annual rental charge for space occupied will be

\$107,818.20, a decrease of \$21,838.80 over the calendar year 1953.

In connection with this rental, the previous audit report stated:

"This department feels quite strongly that continuance of the rental of this space is an extravagance which the MTA cannot afford, and in connection with this fact, a previous audit report stated:

"In view of the fact that the Authority is now exempt from real estate taxes, substantial savings could result from erection of a building to house the main offices of the Metropolitan Transit Authority."

24. DETECTIVE AGENCY: During the year 1954, a total of \$14,878.52 was paid by the MTA to three detective agencies. From invoices examined there appeared to be no duplication involved in these services.

25. RENTAL OF PARKING AREAS: For rental of parking areas in 1954 the MTA received \$69,121.97. \$50,000.00 of this income came from one large contractor who was licensed to operate the majority of those parking areas adjacent to MTA stations. In addition to the above proceeds the Authority received \$135,727.63 for fare tickets sold to parking area patrons.

26. REIMBURSEMENT a/c HURRICANE DAMAGE: Under the provisions of Chapter 689, Acts of 1954 and Chapter 46, Acts of 1955 the Authority has filed claims for reimbursement for damages incurred during the hurricanes of August 31, 1954 and September 11, 1954. Through May 1955, the following is a summary of the claims submitted:

Damage a/c Hurricane "Carol" - August 31, 1954	\$53,352 31
Damage a/c Hurricane "Edna" - September 11, 1954	27,022 34
	<u>\$80,374 65</u>

Several further small claims for reimbursement had not yet been submitted to the Commonwealth by the MTA as of the close of this audit.

27. CONCESSIONS: Income from rental of MTA facilities, station and car privileges, etc., totaled \$888,224.08 for the calendar year 1954, representing a reduction of \$72,878.89 in the income from the same sources during calendar year 1953. With the exception of \$20,246.87, income from telephone pay stations, the internal auditors of the MTA verified all other rental income which is based on a percentage of gross receipts. Comparative figures for the calendar years 1954 and 1953 follow:

	1954	1953
Advertising Privileges - Signs, etc.	\$359,348 63	\$439,552 56
News Stands	225,000 00	250,000 00
Weighing and Vending Machines	28,160 00	30,200 00
Automatic Drink Vending Machines	26,249 98	35,000 00
Telephone Pay Stations	20,246 87	16,053 03
Pay Toilets	16,866 60	13,597 23
Parcel Checking	10,200 56	11,508 45
Parking Areas - Public and Private and Certain Gas Stations	69,121 97	21,993 14
Other - Rentals, etc.	133,029 47	143,198 56
Total	<u>\$888,224 08</u>	<u>\$961,102 97</u>

BOSTON METROPOLITAN DISTRICT

REPORT NO. 55-89

General: The report of this examination is being issued in connection with a current audit of the Metropolitan Transit Authority which is now in progress and covers the period from January 1, 1954, the date of the previous audit, to December 31, 1954.

During this period the Boston Metropolitan District issued bonds and notes totaling \$6,063,000.00. The first bond issue for \$2,059,000.00 was for the purpose of refunding certain maturing obligations of the District. The proceeds of the remaining three bond and note issues were used to purchase bonds and notes of the Metropolitan Transit

Authority. The detail of these issues is submitted below:

On March 1, 1954 the District, under authority of Section 7A, Chapter 544 of the Acts of 1947, as amended, issued \$2,059,000.00 coupon bonds, 1954 Series A, bearing interest at 2.30% per annum, dated March 1, 1954, and maturing December 1, 1962-1984. The proceeds of this issue were used for refinancing those obligations of the District which were to mature between March 1, 1954 and November 1, 1954, and could not be met by the application of the \$500,000.00 payment by the Metropolitan Transit Authority on June 1, 1954 in reduction of the principal of the \$71,418,371.89 Authority Bond dated August 3, 1949, and held by the District. The bonds were sold at a price of \$2,068,800.84. The premium of \$9,800.84 was paid to the Metropolitan Transit Authority.

On March 1, 1954 the District, under authority of Section 6, Chapter 649 of the Acts of 1949, as amended, issued \$750,000.00 coupon bonds, 1954 Series B, bearing interest at 2.30% per annum, dated March 1, 1954 and maturing March 1, 1955-1984. With the proceeds of this sale the District purchased a \$750,000.00 bond of the Metropolitan Transit Authority, bearing interest at 2.30%, to mature on March 1, 1984. This bond issue was for the purpose of providing additional funds for the extension to Revere of the existing East Boston Rapid Transit Extension.

On March 1, 1954, under authority of Section 22, Chapter 544 of the Acts of 1947, as amended, the District issued \$254,000.00 coupon bonds, 1954 Series C, bearing interest at 2.30% per annum, dated March 1, 1954 and maturing March 1, 1955-1964. These bonds were sold for \$260,294.12. With the proceeds the District purchased serial bonds of the Authority as follows:

\$98,000.00 serial bonds bearing interest at 2.30%, dated March 1, 1954 and maturing March 1, 1955-1964.

\$156,000.00 serial bonds bearing interest at 2.30%, dated March 1, 1954 and maturing March 1, 1955-1963.

The District paid a premium of \$6,294.12 on the purchase of the Authority's bonds. The purpose of these bond issues was to replace funds expended for the purchase of buses and trackless trolley vehicles.

In order to provide the Metropolitan Transit Authority with temporary financing, the District issued a \$3,000,000.00 note on January 15, 1954. The note was due on May 1, 1954. The proceeds of the note were used to purchase a \$3,000,000.00 Authority note due on May 1, 1954.

The issue of this note by the Metropolitan Transit Authority and the subsequent purchase by the District is authorized by Section 13 of Chapter 544 of the Acts of 1947, as amended.

Receipts Under Rapid Transit Bond: On November 22, 1954 the District received the fifth installment of \$536,259.27 under the terms of the \$40,219,445.43 Rapid Transit Bond of the Authority held by the District. Amounts received in reduction of the principal amount of this bond are deposited in a separate account where they are held to meet payments required on the Rapid Transit Bonds of the District. Pending the use of these funds for this purpose they may be invested as provided by Section 11 of Chapter 383 of the Acts of 1929. The previous audit report suggested that the Trustees consider the advisability of investing these funds in United States Treasury Bonds or Notes which bear higher interest than United States Treasury Bills. It was noted that during the 1954 year, \$2,327,000.00 was invested in such United States Treasury Bonds and \$9,968.50 was invested in United States Treasury Bills having a maturity value of \$10,000.00.

Section 8A (c), Chapter 544, Acts of 1947, as amended, provides that income earned on this fund is to be paid to the Metropolitan Transit Authority. During the year 1954, the District paid to the Authority in accordance therewith \$33,527.99.

On December 31, 1954 there remained \$1,280.50 of cash on deposit in the National Shawmut Bank of Boston.

The following data is from a schedule prepared by the M. T. A. for use of the District Trustees. This schedule indicates the payments which will be required to the City of Boston through the year 1959.

**Boston Metropolitan District Funds Applicable to City of Boston
Transit Debt**

Year	Nov. 20, Payment from M. T. A.	B. M. D. 3/4% Bond Maturing Nov. 24, 1950	Payments to City of Boston	Cumulative Balances B. M. D. Fund
1950	\$ 536,259 27	\$297,671 65*	-	\$ 238,587 62
1951	536,259 27	-	-	774,846 89
1952	536,259 27	-	-	1,311,106 16
1953	536,259 27	-	-	1,847,365 43
1954	536,259 27	-	-	2,383,624 70
1955	536,259 27	-	-	2,919,883 97
1956	536,259 27	-	-	3,456,143 24
1957	536,259 27	-	\$ 887,000 00	3,105,402 51
1958	536,259 27	-	1,300,000 00	2,341,661 78
1959	536,259 27	-	2,500,000 00	377,921 05
	<u>\$5,362,592 70</u>	<u>\$297,671 65</u>	<u>\$4,687,000 00</u>	<u>\$337,921 05</u>

* Refunding bond dated December 1, 1949 and maturing November 24, 1950 was issued to obtain funds to meet principal payable by the District on December 15, 1949.

Legal Services in Connection with Bond Issues: The previous audit report suggested that the Trustees avail themselves of the facilities of the Department of the Attorney General as an economy measure in handling certain matters in connection with new bond issues.

In this connection the following is an extract from the minutes of the meeting of the Trustees on March 30, 1954:

"Prior to this meeting the Treasurer of the District had been requested by the Trustees to confer with bidders for the District's bonds, including the leading Boston banks and investment dealers. The Treasurer reported that he had consulted several banks and investment bankers as to whether the bidding for bond and note issues of the District would be affected if the opinions on the legality of such issues should be furnished by the Attorney General instead of a nationally known law firm, and that all the banks and bankers consulted had stated that the bidding would be adversely affected.

"A slight increase in interest cost on borrowings by the District could more than offset any saving through the use of the Attorney General's office in the matter of issuing opinions. The Boston Metropolitan District, in providing legal opinions of recognized counsel, is conforming to trade practice, and legal fees for this service are a necessary and proper expense. It was the consensus of the meeting of the Trustees that it was in the interest of the District to preserve the long continuity of legal services rendered by its counsel and that to do otherwise might seriously affect the District in connection with future borrowings."

Investment of Funds: It was noted that funds, provided for the retirement of the District's bonds issued under Section 7A, Chapter 544, Acts of 1947, as amended, were not being invested, although they were not being used in varying amounts between March 1, 1954 and December 31, 1954. The following schedule indicates the amounts which were available for investment during 1954:

Date	Receipts			
1954	From	Amount	Maturities	Balance
Jan. 1				\$ 628 11
Mar. 1	Proceeds of Refunding Bond Issue	\$2,059,000 00	\$1,622,000 00	437,628 11
June 1	M. T. A.	500,000 00	191,000 00	746,628 11
Aug. 1			11,000 00	735,628 11

Aug. 15		\$ 256,000 00	\$479,628 11
Oct. 1		148,000 00	331,628 11
Oct. 15		190,000 00	141,628 11
Nov. 1		117,000 00	24,628 11
Dec. 1	M. T. A.	500,000 00	524,628 11
Dec. 15		241,000 00	283,628 11

1955

Jan. 1		283,000 00	628 11
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It is apparent that the investment of available funds would produce income which could be turned over to the Metropolitan Transit Authority, thereby reducing the cost of service.

The matter of investing these funds in short-term Treasury Bills was discussed with the Treasurer who agreed to bring the matter to the attention of the Trustees of the District at their next meeting.

The following shows amounts available for investment during the 1955 year:

Date	Receipts			
1955	From	Amount	Maturities	Balance
Jan. 1				\$ 628 11
Mar. 1	Proceeds of Refunding Bond Issue	\$2,126,000 00	\$1,660,000 00	466,628 11
June 1	M. T. A.	500,000 00	196,000 00	770,628 11
Aug. 1			11,000 00	759,628 11
Aug. 15			261,000 00	498,628 11
Oct. 1			152,000 00	346,628 11
Oct. 15			192,000 00	154,628 11
Nov. 1			117,000 00	37,628 11
Dec. 1	M. T. A.	500,000 00		537,628 11
Dec. 15			246,000 00	291,628 11

1956

Jan. 1		291,000 00	628 11
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It is recommended that these funds be invested and that a policy of investing such funds each year be established because this same condition will exist for many years.

Unclaimed Funds: The records of the paying agent for the District's bonds indicate that funds for certain bond maturities and interest payments have remained unclaimed for more than fourteen years. It is suggested that possibly these funds come within the provisions of Chapter 200A of the General Laws, as inserted by Chapter 801, Acts of 1950 which is the so-called "Abandoned Property Act."

It is suggested that the Trustees of the District review this matter, and, if applicable, comply with the provisions of that statute.

TRANSIT MUTUAL INSURANCE COMPANY

REPORT NO. 55-107

Distribution of Surplus: The affairs of the Transit Mutual Insurance Company are directly connected with the operation of the Metropolitan Transit Authority since all of the officers and directors of the Transit Mutual Insurance Company are salaried employees of the Metropolitan Transit Authority. Since December 1947 none of the trustees or employees of the Metropolitan Transit Authority has received a salary for duties performed as officers or directors of the Transit Mutual Insurance Company, and in addition, it was voted on January 27, 1949 to abolish the director's fee of five dollars for attendance at regular meetings of the Insurance Company. The only income producing policy written for workmen's compensation is that of the Metropolitan Transit Authority and policies for general liability insurance are written only to permit the directors and officers of the Company to be policyholders as required in the Bylaws, and these latter policies are reinsured with another company.

Reinsurance: Under a "Reinsurance Agreement" which became effective April 1, 1949, this Company was reinsured on losses between \$25,000.00 and \$500,000.00 for any one accident or series of accidents arising out of any one event. Effective November 15, 1950 the coverage under this reinsurance agreement with the Peerless Casualty Company was changed by endorsement to \$50,000.00 up to \$500,000.00. Effective January 1, 1953 this reinsurance was taken over by the Liberty Mutual Insurance Company on losses in excess of \$50,000.00 up to \$500,000.00.

Prior to 1951 the total premium for this reinsurance was 1/2 of 1% of the net premiums written. Effective January 1, 1951 the total premium was increased to 2% of the net premiums written. Statutory increases in benefits under the Workmen's Compensation Act were apparently factors in this increase of the rate.

Reserve for Workmen's Compensation Losses: The total of the Reserve for Workmen's Compensation Losses as at December 31, 1954 consisted of the following:

Loss Reserve (Case Basis)	\$589,404 71
Loss Adjustment Expense Reserve	26,555 35
	<u>\$615,960 06</u>

Dividend Declaration: On November 10, 1954 the Directors voted to declare a dividend of \$60,000.00 on Workmen's Compensation business to be paid to the Metropolitan Transit Authority in January 1955. In previous years the dividend plus premium discounts would amount to \$100,000.00. The reduction in dividend can be attributed to the fact that the Reserve for Losses has been substantially increased, principally, by the higher valuations placed on injuries as recently established by the Massachusetts Workmen's Compensation Rating Bureau.

Cash on Deposit: It was noted that on April 30, 1954 an account was opened in a commercial bank in the amount of \$25,000.00. From April 30, 1954 to February 17, 1955, there was no activity in this account. It appears that this \$25,000.00 should have been deposited in a savings account or invested in authorized securities so that it would yield some income.

NEW BEDFORD, WOODS HOLE, MARTHA'S VINEYARD AND
NANTUCKET STEAMSHIP AUTHORITY

Section 14 of Chapter 544 of the Acts of 1948 provides in part as follows:

"SECTION 14. Report -- On or before the thirtieth day of January in each year, the Authority shall make an annual report of its activities for the preceding calendar year to the governor and to the general court. Each such report shall set forth a complete operating and financial statement covering its operations during the year. The Authority shall cause an audit of its books to be made at least once in each year by the state auditor, and the cost thereof may be treated as part of the operation of the project. Such audits shall be deemed to be public records within the meaning of chapter sixty-six of the General Laws."

A complete report of an audit of the accounts of the New Bedford, Woods Hole, Martha's Vineyard and Nantucket Steamship Authority for the calendar year ending December 31, 1954 was issued on June 6, 1955.

General: Individual copies of the audit reports have been submitted to His Excellency the Governor, the Lieutenant-Governor, the President of the Senate, the Speaker of the House, the State Librarian, and the Senators, Representatives and officials of the cities and towns of the area served by the Authority and the members and officials of the Authority.

The following comments, exceptions and recommendations were included in the report issued in connection with this examination:

Results of 1954 Operations: It was noted that the gross operating revenues of this Authority decreased from \$1,651,035.04 in 1953 to \$1,638,331.20 in 1954. This decrease in revenue may possibly be attributed to the hurricanes of August and September which, in effect, shortened the period of peak revenues and was noted principally in the decline of passenger traffic during this particular period.

The operating expenses during 1954 were \$1,661,073.94 and indicate a decrease from the prior year's cost of \$1,708,938.77. This resulted principally from a decline in maintenance expenses from \$337,420.30 in 1953 to \$265,166.30 in 1954.

The net results of actual operations for 1954 indicated a loss of \$22,742.74 as compared with a loss of \$57,903.73 for 1953.

Expenditures for capital additions and replacements totaled \$62,929.94 in 1954 as compared with \$34,504.31 in 1953. The 1954 expenditures including accounts payable totals \$55,329.54 from the Property Replacement Fund, principally on account of hurricane damages and \$16,669.92 from the Capital Improvements Fund largely in connection with the purchase of the proposed new vessel.

The number of passengers decreased from 406,336 in 1953 to 388,095 in 1954, and the number of passenger cars carried decreased from 54,248 to 54,094 during the same two year period. Freight tonnage carried increased from 42,000 in 1953 to 43,254 during 1954.

Transfers from the Sinking Fund totaled \$194,403.75 of which \$115,000.00 represented funds for the retirement of bonds and \$79,403.75 for interest on indebtedness.

Depreciation Charges: Previous audit reports have commented that the charges to the cost of service, as indicated on the records of the Authority, did not provide for the inclusion of debt retirement as an item of expense. The cost of service as defined by Section 5 of Chapter 544 of the Acts of 1948 shall include:

"(5) interest and amortization (including amortization of discount or premium) on bonds or notes of the Authority issued under this act."

It was noted that this comment has been recognized by the Authority and on December 8, 1953 the Authority members voted that past depreciation charges should be considered to have included the principal retirement of bonds. As a result, the Statement of Income and Expenses as it appears in the Seventh Annual Report of the Authority, which includes the 1954 calendar year now for the first time, indicates under the heading of "Depreciation" the sub-caption "Bond Retirement" which totaled \$115,000.00 and "Other Depreciation" is shown in the amount of \$68,008.45.

Bond Resolution: The terms of the Bond Resolution covering the original issue of the bonds of the Authority place certain unreasonable limitations upon the financial operations of the Authority. The limitations are of such a nature that it is not only possible but also extremely probable that at some future date the Authority could conceivably have in its possession several hundred thousand dollars, and, at the same time, be actually unable to pay its current expenses.

The following provisions exist in the Bond Resolution with respect to the treatment of revenue cash and the segregation of cash into certain funds:

- I. The monthly revenues from operations must be deposited intact into a special fund and are not available to the Authority for current expenses until the tenth day of the subsequent month.
- II. The balance of the Replacement Fund, which amounted to \$211,378.82 on December 31, 1954, representing cash transfers from revenues, cannot be used to meet current expenses and must be held in trust and applied only to property replacements. Despite abnormal expenditures during 1954 as a result of damages and losses caused by hurricanes, the balance of this fund on December 31, 1954 showed an increase of \$12,657.78 for the year.
- III. On December 31, 1954, there existed a balance of \$147,376.30 in the Capital Improvement Fund, representing the excess of funds received from the original bond issue over the cost of acquisition less sums expended for capital improvements and replacements since acquisition. This balance may be used solely for capital improvements and replacements.

In this connection the prior audit report stated as follows:

"Attention is also directed to Section 108 of the Bond Resolution, which provides that in the event of an additional bond issue, none of these new bonds shall mature earlier than one year after the date of the final maturity of the present bond issue which matures in 1979. Since the Authority is currently considering the acquisition of a new vessel, the purchase of which must of necessity be financed from the proceeds of a bond issue, this particular section creates an almost impossible situation, and it follows that should borrowings be attempted providing for maturities to begin in 1980, the interest costs on such borrowings is certain to be exorbitant. As an example of the incongruity of this situation, it is pointed out that the vessel, which will be the collateral for the bonds that are to be issued, will be more than twenty five years old, and will undoubtedly be outmoded or ready for replacement before any maturities in this particular issue begin. It must be presumed, therefore, that the future bondholders would in this event, have little protection other than the contingent responsibility of the Commonwealth."

While this current audit was in progress, arrangements for floating a \$2,000,000.00 bond issue were completed. It is understood that the proceeds of this issue will be used to defray the cost of construction of a new ferry type, twin screw, welded steel steamer and the alterations of the Authority's terminals necessary to accommodate the new steamer. The bonds will be dated March 1, 1955, will mature on March 1, 1980, and will bear interest at the rate of 2 1/2% payable semi-annually on the first days of March and September. They may be redeemed in whole or in part, prior to the date of maturity.

It was noted however that bids were not solicited for this issue. It was noted that an offer to buy the entire issue at \$100.50 and accrued interest was made by the First Boston Corporation and the members of the Authority voted to accept it at a meeting held on March 28, 1955. The minutes of this particular meeting indicate that the Chairman of the Authority and a representative of the Fiscal Agent stated it to be their opinion that the Authority would not receive as favorable a price by letting the bonds out on bids.

In this connection attention is directed to the fact that in recent years it has been considered good practical business to issue bonds which are redeemable over the life of the asset acquired, and as a matter of fact this arrangement has been most effective for the Metropolitan Transit Authority, which is, for the purpose of this discussion, a comparable agency created by the Commonwealth.

This contemplated current bond issue of this Authority falls due in 1980, at which time, the entire issue of \$2,000,000.00 will have to be refunded. It is therefore most obvious that this procedure simply defers the payment of this obligation into the distant future and of course saddles those years with interest costs, which must result in increases in the cost of service.

It was also apparent that the Bond Resolution adopted April 20, 1949 was designed to afford the utmost protection to the bondholders. Certain of its provisions, however, do not appear to be consistent with good management policies and could possibly result, under certain conditions, in a loss of revenue or increased expenses. In an effort to avoid such situations arising, the Authority on March 17, 1955 adopted the following amendments to the original Bond Resolution:

1. "...that Section 610 of the Resolution adopted April 20, 1949 authorizing Steamship Bonds shall be amended by adding at the end thereof the following sentence: - Notwithstanding the foregoing provisions, the Authority may lease any part of its property for its own purposes during the period of the lease, for any other purpose."
2. "...that that part prior to the clauses designated by letter of Section 404 of the Resolution adopted April 20, 1949 authorizing Steamship Bonds shall be amended so as to read as follows: -- At any time the Treasurer may withdraw from the Revenue Fund all or any part of the moneys therein, and on or before the 10th day of each month he shall withdraw from the said Fund the balance of the moneys therein representing revenues of the preceding month, and he shall deposit all such withdrawals forthwith to the credit of the following funds in the following order."

Before these resolutions can be put into effect the Authority must first obtain written

consent from holders of at least two thirds of all bonds then outstanding.

Deficiency Transfer from Reserve Fund: Section 9 of Chapter 544 of the Acts of 1948 outlines the procedure to be followed with respect to the operating deficits of this Authority, as follows:

"Whenever the income of the Authority is insufficient to meet the cost of the service, as defined in section five, the reserve fund shall be used as far as necessary to make up said efficiency.

"If as of the last day of December in any year the amount remaining in the reserve fund shall be insufficient to meet the deficiency hereinbefore referred to, the Authority shall notify the state treasurer of the amount of such deficiency, less the amount, if any, in the reserve fund applicable thereto, and the commonwealth shall thereupon pay over to the Authority the amount so ascertained and the Authority shall apply the amount so received from the commonwealth in payment of such deficiency. Pending such payment, the Authority shall borrow such amount of money as may be necessary to enable it to make all payments as they become due.

"In order to meet any payment required of the commonwealth under this section, the state treasurer may borrow at any time, in anticipation of the assessments to be levied upon the cities and towns hereinafter specified, such sums of money as may be necessary to make said payments and he shall repay any sums so borrowed as soon after said assessments are paid as is expedient."

It was noted that the deficit balance in the Earned Surplus Unappropriated account on December 31, 1954 was \$311,896.23 and represented the net losses of the Authority from its operations since it was established. This balance was analyzed as follows:

Accumulated Deficiency as of December 31, 1953	\$202,706 01
Deficiency for year ended December 31, 1954	<u>109,190 22</u>
	<u>\$311,896 23</u>

On February 8, 1954, the Authority voted to transfer \$202,706.01, the amount of the accumulative deficiency to December 31, 1953 from the Reserve Fund and as a result the Sinking Fund received \$57,137.62 which represented the balance required by the Sinking Fund to meet principal and interest payments of \$155,197.10, due March 1, 1954, while the balance of \$145,568.39 was placed in the Operations Fund. After this transfer the balance of the Reserve Fund was reduced to \$10,276.89 and after interest items resulting from fund investments the balance of this fund had grown to \$10,315.66 as of December 31, 1954.

Assessable Deficit from 1954 Operations: The financial records of the Authority indicate that the loss, after fixed and other charges, for the 1954 calendar year was \$109,190.22 and the balance in the Reserve Fund which was available to meet this deficiency amounted to only \$10,315.66. In accordance with the provisions of Section 9 of Chapter 544 of the Acts of 1948 the Authority advised the State Treasurer that the balance of the deficiency for 1954, not covered by the Reserve Fund, amounted to \$98,874.56. This amount was paid accordingly by the Commonwealth to the Authority on March 1, 1955. As provided by statute, this reimbursement of \$98,874.56 will be assessed as follows in the proportions indicated:

City of New Bedford	15%
Town of Falmouth	10%
Town of Nantucket	25%
County of Dukes County	50%

The County Commissioners of the County of Dukes County will allocate its assessment upon its towns with the exception of the Town of Gosnold, in the same proportions as in the assessment of the county tax.

As a result of this operating deficiency for 1954, the various participating communities will pay their first assessment.

A review of the 1955 budget indicates that a deficit from operations estimated at \$119,220.00 may be expected during this year. Since this budget further indicates that

only \$28,725.00 will be available for deposit in the Reserve Fund during this year, it therefore appears that another large assessment may be anticipated during the current calendar year.

Damages Resulting from 1954 Hurricanes: The properties of the Authority suffered extensive damages from the hurricanes of August and September 1954. The resultant costs of repairs and expenses are being handled as deferred charges until such time as it can be determined how much of these costs are recoverable through insurance companies and the Massachusetts Hurricane Relief Fund. The amount of such damages and expenses as of December 31, 1954 appears on the Authority's records as \$49,259.73. It was noted however that this amount represents only that portion of the actual expenses which were charged to December 31, 1954. From information available it is estimated that the total amount of damages and related expenses will be \$112,275.00 to date. Of this amount, \$41,603.28 was recovered from an insurance company during February 1955. In addition, \$28,268.29, representing damages to the Motor Vessel *Islander* resulting from the Hurricane of August 31, 1954, and from striking a submerged object on September 13, 1954, is apparently covered by insurance and has been submitted as a claim to the insurance company concerned.

The balance not recovered from insurance may be reimbursed from the Massachusetts Hurricane Relief Fund.

New Freight Rates: It was noted that a new schedule of freight rates became effective on June 9, 1954. It is understood that new rates were designed to encourage shipment of freight by trucks and to reduce handling of freight at the docks. It is hoped as a result of these changes, the charges will bear a closer relationship to actual handling costs.

Policy Regarding Expenditures: During the latter part of 1954 large expenditures were made for repair of damages caused by the hurricanes of August and September. In this connection it was noted that one contractor was paid during that period, \$25,925.43, for repairs made to the docks at Woods Hole and Vineyard Haven. Bids were not solicited for this work and it is understood that this contractor originally built the docks. It was the feeling of management that this contractor's work is highly satisfactory, his charges reasonable and no saving would be gained by letting the contract out on bid.

In this connection the prior audit report stated:

"A review of expenditures for capital improvements, replacements, and large amounts of maintenance repairs indicates that there appears to be no standard policy as to competitive bids, formal contracts or agreements, and/or the recording of information regarding authorizations."

Inasmuch as this situation apparently remains unchanged, this comment is repeated for consideration.

Trustees: Although certain changes have been made in the Board of Trustees since the date of the last audit, this Department believes that its recommendation with regard to the membership of the Authority to be still valid and pertinent and that recommendation is herewith repeated:

"It is recommended that the present members of the Authority be reduced to the status of an advisory committee and that a new Authority of three members should be created, none of whom should live within the area of the Authority and have any interests, direct or indirect, in any business conducted within the area."

Release of Escrow Fund: Attention is directed to the fact that the balance in the Escrow Fund held by the First National Bank of Boston under an Escrow Agreement accompanying the original offer to stockholders was \$10,000.00. In this connection the Authority was advised by counsel that the time within which suits might be brought against the Authority on account of any claims presented to the Massachusetts Steamship Lines, Inc., had expired, and as a result at a meeting of the Authority held on September 16, 1954 the following was voted:

"VOTED that the sum of \$10,000.00, being the balance of the fund held by the First National Bank of Boston under the Escrow agreement accompanying the Offer to Stockholders dated January 6, 1949, be now released, and that Robert G. Dodge, as counsel for the Authority, is authorized to notify the bank that it may properly release this sum to the representatives of the stockholders."

Plans for New Vessel: It was noted that expenditures to December 31, 1954 from the Capital Improvements Fund for the construction of a new steamer type vessel totaled \$16,289.92. This amount represents expenditures for the services of a naval architect, a study by an engineering firm and certain other smaller related expenses. As yet, no contract has been awarded for the construction of the vessel, since this must, of necessity, await the completion of plans for financing, etc.

Legal Action Against Union: At the end of the 1953 fiscal year no action had yet been taken by the courts on the Authority's law suit which sought clarification of its powers and rights, with respect to an agreement to provide fifty-two weeks work each year to its employees on a "Guaranteed Employment List."

It was noted that at its meeting of April 15, 1954 the Authority voted that its counsel be instructed to take action to dismiss the suit without prejudice.

Possible Discontinuance of Service to New Bedford: In its sixth Annual Report to the Governor, covering its operation for the year 1953, it was noted that the Supreme Judicial Court had decided that the Authority could, for cause, suspend its service at New Bedford during the slack season. On December 21, 1953 the Authority voted to suspend such service to New Bedford from September 26, 1954 to April 25, 1955. This vote however was later rescinded and no suspension of service was effected at New Bedford during that slack period, apparently, because an opinion by the Authority's Consulting Engineer and an independent report by a firm of public accountants indicated that it would be more economical to keep the New Bedford port open. In this connection the following excerpt from the Authority's Seventh Annual Report is shown:

"...Both the Opinion and the Report revealed that because of certain clauses in the current contracts with the Operating and Longshoremen's Unions, not only would no saving be made by closing an unprofitable port, but a considerable additional expense would be incurred. It was for this reason that the majority of the Members voted to keep both mainland ports open for this winter, with the understanding that their negotiating committee would make its primary objective to impress upon the Union negotiators the necessity of making changes in the contracts to permit normal flexibility of operation. Unless such changes can be effected it is difficult to see how the Authority can continue to operate in its present form without an increasingly heavy financial burden on the supporting communities."

